UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF RHODE ISLAND

THE CITY OF PROVIDENCE,

Plaintiff,

vs.

BUCK CONSULTANTS, LLC,

Defendant.

C.A. No. CA 13- 131 ML

U.S. DISTRICT COURT
DISTRICT OF R.I.

FEB 26 2013

RECEIVED

COMPLAINT AND JURY DEMAND

The City of Providence (the "City" or the "Plaintiff"), by and through its undersigned counsel, hereby complains against Buck Consultants, LLC ("Buck" or the "Defendant") as follows:

INTRODUCTION

"When you contribute to your employees' pension security, you need to have confidence in your actuary."[1]

For over ninety years, the City has reposed its financial trust and confidence in its pension actuary, Buck. Recently, the City placed its very continued existence as a viable municipality in Buck's hands as the City endeavored to understand and change the crushing weight of its pension liabilities. In connection with that effort, the City requested and obtained from Buck multiple analyses of the savings that the City could achieve by effectuating modifications to the pension system. Buck did so knowing that the City was in the midst of negotiating changes to its pension system. Now, following the negotiation and execution of

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[1] Website of Buck Consultants: https://www.buckconsultants.com/Services/Retirement/Actuarialconsultingandfinancialmanagement.aspx

agreements with the City's union employees and retirees which relied upon and implemented the very modifications presented by Buck, the City has learned for the first time that Buck in fact miscalculated the savings associated with the pension modifications and has caused the City to incur a $10 million loss as a result. When first confronted with the material errors, Buck admitted its mistakes and acknowledged responsibility for its carelessness. Thereafter, in a feeble attempt to explain the error away, Buck offered that it actually had committed numerous other undisclosed calculation errors that accounted for the lost savings, some of which had persisted for up to two decades. Its trust violated, its confidence destroyed, and its financial health at risk, the City now seeks redress for breach of contract, breach of fiduciary duty, negligence, negligent misrepresentation, and treble damages and attorneys' fees for a violation of the Rhode Island False Claims Act arising from Buck's actions.

NATURE OF THE ACTION

1. The global financial meltdown that began in 2008 had a dramatic impact on the City's financial health. As a result, the City has spent years investigating potential ways to mitigate its costs and liabilities. Since 2011, the City has been relying on Buck to calculate the savings the City would achieve if the City were to make certain changes to the Employees' Retirement System of the City of Providence (the "Pension System"). The central component of nearly all of the scenarios that the City asked Buck to analyze was a prospective suspension of all cost-of-living adjustments ("COLA") to retired City employees who received pension payments. The COLA suspension would relieve financial stress by allowing the City to reduce its annual required contribution to the Pension System (the "ARC") while still providing adequate benefits to City retirees.

2. Buck was acutely aware that the City was relying on its representations that it was an expert in providing actuarial services for an accurate determination of the City's expected

savings from the proposed COLA suspension. In fact, Buck testified before the City Council Subcommittee on Pension Sustainability about the savings that the COLA suspension would produce, provided actuarial opinions on the matter, and ultimately provided the calculations that the City would use in its negotiations with the unions and retirees who opposed the proposed pension changes.

3. Fully aware of the tens of millions of dollars at stake and the City's complete reliance on its analyses during its negotiations with its retirees and unions, Buck nevertheless made fundamental and inexcusable errors in its calculations. Perhaps most importantly, Buck failed to account for an entire year's COLA payments, making the numbers that Buck was using to calculate the City's ARC and its expected liabilities wholly incorrect. Consequently, $10 million in savings that Buck had represented to the City would be achieved as a result of suspending the COLA has been irretrievably lost.

4. When first confronted, Buck admitted its error. Thereafter, Buck offered a different explanation and contended that it had made a different calculation error: for up to two decades, Buck had failed to account for COLA payments to the spouses of deceased retirees. Having been presented with new material errors so persistently over the past weeks, the City now has reason to doubt that those are the only errors that Buck has made in its century-long employment as its actuary.

5. The City relied upon Buck's projections as the basis for its final resolution with the retirees and unions regarding COLA suspensions. Had the City known that Buck's calculations were simply wrong, the City would never have agreed with its union employees and retirees to the pension modifications to which it is now bound. Through this action, the City seeks to recover the $10 million lost because of Buck's negligence and breaches of duty so that

the City may be put in the position in which it would have been had it received the correct information from its once-trusted actuary.

PARTIES

6. The City is a municipal corporation and a political subdivision of the State of Rhode Island. Pursuant to R.I. Gen. Laws section 45-15-2, every civil action brought by a municipality shall be brought in the name of the municipality unless otherwise directed specially by law.

7. Defendant Buck Consultants, LLC is a subsidiary of Xerox Corporation. Upon information and belief, Buck is a limited liability company incorporated in the State of Delaware with its principal place of business located at 245 Park Avenue, 23rd Floor, New York, NY 10167. Upon information and belief, Buck also serves as the actuary for the pension plans of the Cranston, Rhode Island Police and Fire Departments, the Newport, Rhode Island Police and Fire Departments, and the Smithfield, Rhode Island Police Department.

JURISDICTION AND VENUE

8. This Court has subject matter jurisdiction under 28 U.S.C. § 1332 in that the parties are of diverse citizenship and the amount in controversy exceeds $75,000, exclusive of interest and costs.

9. The Defendant has conducted substantial business and other affairs in the State of Rhode Island over the course of more than ninety years, and therefore has the requisite minimum contacts with Rhode Island to render it subject to personal jurisdiction in this judicial district.

10. Venue is proper in this district pursuant to 28 U.S.C. § 1391(a) because a substantial part of the events or omissions giving rise to the claims occurred in this judicial district, and the Defendant is subject to personal jurisdiction within this judicial district.

STATEMENT OF FACTS

A. The City has relied on Buck for nearly a century

11. Established in 1916, Buck now has nearly 1,500 employees in 200 global locations. Buck presents itself as one of the most competent, sophisticated and experienced advisors to pension plans. It claims that it has a "reputation for innovation and [] commitment to excellence" that is demonstrated by its "team of highly skilled professionals." Upon information and belief, Buck also advises numerous governmental entities on actuarial related matters.

12. The City first retained Buck as its actuary in 1920. Since then, the City has continuously placed its trust and confidence in Buck and relied upon Buck to provide it with accurate calculations as to the City's expected liabilities and required contributions to the Pension System.

13. For the past two years, the City has relied heavily on Buck's calculations of the City's expected savings from proposed changes to the Pension System, the most significant of which would be to prospectively suspend all COLAs.

14. For a significant portion of the events in question, Buck delivered its services to the City through its employee, Philip Bonanno ("Bonanno"), who held the title Director and Consulting Actuary. At all times relevant hereto, Buck and Bonanno held themselves out to the City as expert actuaries, and Bonanno touted his membership in the American Academy of Actuaries (the "Academy") and his compliance with its qualification standards.

15. As an actuary, Bonanno is required to abide by the Actuarial Standards of Practice ("ASOPs") promulgated by the Actuarial Standards Board. ASOPs identify what an actuary should consider, document, and disclose when conducting his actuarial assignments.

16. Section 3.5.2 of ASOP No. 04 titled "Measuring Pension Obligations and Determining Pension Plan Costs or Contributions" directs that when measuring pension obligations and determining plan costs or contributions, the actuary "should reflect proposed plan changes *as appropriate for the purpose and nature of the assessment*." (emphasis added).

17. In addition, Section 3.2 of ASOP No. 23 titled "Data Quality" directs that when undertaking an analysis, the actuary should select the data that is appropriate for the intended purpose of the analysis, "including whether the data are *sufficiently current*." (emphasis added).

B. The City asks Buck to assist with reforming its Pension System

18. The City's obligations under the Pension System have put a tremendous strain on the City's finances. A minimum-funding ratio commonly used to mark relative stability for a government pension plan is in the range of 70%-80%. According to Buck's valuation report dated June 30, 2011 (the "2011 Valuation Report"), the Pension System had a funding ratio of approximately 32%. The City's total pension liability was more than $1.3 billion and the total unfunded portion of that liability was over $900 million. Absent the reforms adopted in April 2012, over the next twenty-seven years, the City's ARC to the Pension System would increase each year until the unfunded liability was fully amortized. Based on Buck's projections, the City's total ARC would rise from approximately $55.8 million in fiscal year 2012 to over $207 million in fiscal year 2039.

19. Additionally, due to collective bargaining agreements with unions dating back to the 1990s, the City has been liable for COLAs of up to 5%-6%, compounding annually. These compounding COLAs cause a recipient's pension to double approximately every twelve to sixteen years. The COLAs are one of the most significant cost drivers of the Pension System and account for a substantial portion of the City's unfunded pension liability.

20. To attempt to stabilize the Pension System and avoid bankruptcy, the City Council Subcommittee on Pension Sustainability (the "Subcommittee") held five hearings on reforming the Pension System between November 2011 and March 2012. These hearings ultimately produced a report containing recommendations to the City on how to reform the Pension System. Buck provided the (erroneous) calculations, projections, and analyses that became the basis for the Subcommittee's recommendations, and ultimately, the City's actions.

21. In January 2012, during the Subcommittee hearings, the City asked Buck to calculate the City's liabilities and ARC if all current COLAs were reduced by 1%. By letter dated February 1, 2012, Buck provided its analysis of the proposed reduction. See Exh. 1. In the letter, Buck stated that its calculations were based on the data used in Buck's 2011 Valuation Report. Id. Buck explicitly stated that the current COLA structure was detailed in Schedule D of the 2011 Valuation Report, which specifically identifies January 1 as the date on which COLA payments are made every year. Id.

22. By letter dated February 2, 2012, Buck provided its analysis of the City's revised proposal – a ten-year COLA suspension effective January 1, 2013. See Exh. 2. In the letter, Buck stated that "The proposed benefit change is to freeze all scheduled COLAs for the *next* 10 years." Id. (emphasis added). There was no reference to retroactively reversing any prior COLA already awarded, including those awarded in January 2012.

23. The February 2, 2012 letter, and indeed most of the correspondence signed by Bonanno who performed most of the calculations for the City, contains the following language: "I am a Member of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion." Id.

24. Based upon its calculations, Buck represented to the City that freezing the COLAs for ten years would reduce the Pension System's unfunded accrued liability by approximately $165 million, reduce the City's ARC by approximately $10.4 million for the fiscal year ending June 30, 2013, and increase the Pension System's funded percentage. Id. Buck also represented that the ten-year suspension would allow the Pension System to attain a funded percentage of 70% in the fiscal year ending June 30, 2035. Id.

25. On March 13, 2012, Bonanno testified before the Subcommittee that suspending COLA payments would produce the most savings to the City. On the same day, Janet H. Cranna, another Buck actuary, testified that a COLA suspension would produce the most savings to the City because it would affect all current retirees as well as active employees once they retire.

26. Buck provided the Subcommittee several actuarial opinions and its 2011 Valuation Report, all of which were attached as exhibits in the Subcommittee's report on the Pension System. Based upon Buck's calculations of the significant savings to the City, the Subcommittee recommended that the City suspend COLAs on all pensions until the Pension System reached a funding ratio of 70%.

27. In all of the actuarial opinions provided to the Subcommittee, Bonanno represented that he was a member of the Academy and met the Academy's Qualification Standards to issue Statements of Actuarial Opinion. According to the Academy, a Statement of Actuarial Opinion is "an opinion expressed by an actuary in the course of performing actuarial services and *intended by that actuary to be relied upon by the person or organization to which the opinion is addressed.*" (emphasis added).

C. The City acts on Buck's projections

28. On or around April 27, 2012, the City Council voted unanimously to approve the Subcommittee's recommendation to suspend COLAs on all pensions beginning in 2013 and continuing until the Pension System reached a funding ratio of 70%. The Mayor signed the ordinance into law on April 30, 2012.

29. The City's retirees and unions opposed the ordinance, calling the proposed COLA suspension a violation of various collective bargaining agreements and of the state and federal constitutions. In an effort to avoid litigation that would delay the effectuation of the COLA suspension, the City entered negotiations with the retirees and the unions to attempt to reach an agreement on revised pension terms. These hard-fought negotiations began in the spring of 2012 and continued throughout most of the year.

30. During the negotiations between the City and its retirees and unions, Buck provided calculations and recommendations to the City of the savings that would be achieved by a COLA suspension under various scenarios. Bonanno communicated these calculations and recommendations directly to Michael D'Amico ("D'Amico"), the Director of Administration for the City and the point person for the City's negotiations with its unions and retirees. At all times relevant hereto, Buck and Bonanno were acutely aware that D'Amico and the City were in the midst of negotiations with its unions and retirees and were expressly relying on the accuracy of Buck's recommendations and calculations in negotiating the modifications to the Pension System.

D. Buck represents that it understood the COLA suspension period

31. By letter dated May 8, 2012, around the time that the City began its negotiations with the retirees and unions, Buck provided the City with another analysis of the savings

produced by a prospective ten-year COLA suspension. See Exh. 3. As in its previous letter dated February 2, 2012, Buck stated that "The proposed benefit change is to freeze all scheduled COLAs for the *next* 10 years." (emphasis added). Id. It was thus clear that the COLA suspension was prospective in nature and would not retroactively reverse any prior COLAs already awarded, including those awarded in January 2012.

32. Over the two weeks subsequent to the May 8, 2012 letter, Buck conducted numerous analyses for the City with the prospective ten-year COLA suspension being a central element in almost each and every scenario. Finally, on May 23, 2012, the City sent Buck the details of the tentative agreement that the City had reached with its unions and retirees based on all the prior calculations that Buck had provided. The City asked Buck to send a final valuation clearly stating the effects of the negotiated settlement of which the prospective ten-year COLA suspension was a central component.

33. By letter dated May 25, 2012, Buck provided the City with the requested analysis. See Exh. 4. As in its previous letter dated May 8, 2012, Buck stated that its calculations were based on the proposed change to "freeze all scheduled COLAs for the *next* 10 years." Id. (emphasis added). There can be no question that the COLA suspension was prospective, and thus Buck's calculations should have included the COLA made in January 2012.

34. In the fall of 2012, with negotiations ongoing, Buck began finalizing a draft of its June 30, 2012 actuarial valuation of the Pension System (the "2012 Valuation Report"). Andy Zmich ("Zmich"), a consultant at Buck, sent D'Amico an e-mail dated September 27, 2012, in which Zmich listed all of the proposed changes to the Pension System. These changes included the prospective ten-year COLA suspension. See Exh. 5. Zmich attached three versions of Schedule D, each of which stated that the COLA payment was made on January 1 every year.

See Exhs. 5a, 5b, 5c. Moreover, in the section pertaining to COLAs, the revised Schedule D specifically stated "A ten-year freeze period will be implemented *effective January 1, 2013* and no COLAs will be granted during this period." See Exh. 5c (emphasis added).

35. Ultimately, based upon the analysis performed by Buck, the City entered into an agreement with the unions and retirees that, in substance, adopted Buck's calculations – the very calculations that were later revealed to be materially erroneous.

36. Upon information and belief, other cities and towns in Rhode Island are considering adopting similar reforms to their pension systems based on Buck's calculations and recommendations. For example, upon information and belief, the Cranston Police and Fire Departments have recommended a ten-year suspension of all COLAs – exactly what the City has done – based on Buck's projections of the savings that it would create.

E. The City discovers Buck's mistake – and Buck admits it

37. By e-mail dated December 21, 2012, Zmich sent D'Amico a draft of the 2012 Valuation Report. On the same day, D'Amico e-mailed Zmich and Bonanno about several discrepancies from the version on which the City relied when striking the agreement with the unions and retirees, including an $18.9 million loss classified as "Other" and a $10.8 million loss related to the Inactive Mortality and Data Adjustment. See Exh. 6.

38. When confronted with these discrepancies, Zmich responded that the $18.9 million classified as "Other" was due to "the timing of the COLA freeze." See Exh. 7. Zmich explained that in the spring of 2012, Buck had made its calculations based on the assumption that the COLA suspension would go into effect one year after the issuance of the 2011 Valuation Report, which was dated June 30, 2011. Id. As a result, Zmich explained, Buck did not include the 2012 COLA in the savings calculations on which the City relied during its negotiations. Id.

Buck thus severely understated the City's savings by assuming that the City did not pay a COLA for 2012, ***despite the fact that the 2012 COLA had already been incurred when Buck performed its calculations***.

39. Apparently aware the gravity of Buck's mistakes, Zmich noted that he was hoping to have had a chance to speak with D'Amico before he saw the badly botched calculations. Id. Zmich went on to claim that the Inactive Mortality and Data Adjustment variance of $10.8 million was attributable to fewer deaths than expected, and/or because of changes to the reasons for the retirement of certain pension recipients. Id.

40. By e-mail dated December 22, 2012, D'Amico responded that Zmich's explanation for the $18.9 million classified as "Other" did not hold water because at the time that Buck made its calculations in May 2012 based on the prospective ten-year COLA suspension, the 2012 COLA had already been paid. See Exh. 8. Therefore, Buck should have included the 2012 COLA in its calculations. Id. In addition, D'Amico pointed out that Buck had made a substantial mistake if it had projected the City's savings based on a COLA suspension that started in the 2012 fiscal year instead of the 2013 fiscal year as the City had specifically instructed. Id. Furthermore, D'Amico pointed out that in its e-mail dated September 27, 2012 and letter dated May 25, 2012, Buck acknowledged that the ten-year COLA suspension would go into effect on January 1, 2013. Id.

41. By e-mail dated December 24, 2012, Zmich claimed that Buck thought COLA payments were made on July 1 each year, not January 1. See Exh. 9. When alerted to the fact that COLA payments were made on January 1, Zmich said that Buck changed the wording in its actuarial opinions to reflect the correct date, but did nothing more. Id. If Buck had done its calculations properly and included the 2012 COLA, then it would have projected the City's

savings to be $13.9 million, not $14.6 million as it had told the City on May 25, 2012 during the final negotiations with the unions and retirees. Id. Zmich explained that Buck's error resulted in a $700,000 loss in savings to the City, which when amortized over a twenty-eight year period, amounted to a whopping $10 million loss. Id. Zmich also explained that after peer review and follow-up review, Buck had determined that the $10 million was part of the $10.8 million related to the Inactive Mortality and Data Adjustment variance that D'Amico had previously identified. Id.

42. On January 3, 2013, Bonanno and Zmich met with D'Amico in the City's offices in Providence. Bonanno admitted that all of the calculations that Buck had provided to the City throughout its negotiations with the retirees and unions did not account for the 2012 COLA. Bonanno affirmed what Zmich had already told D'Amico: because of Buck's elemental error, the City's pension liability increased by $10 million over what was projected and relied upon when the City was negotiating modifications for the pension.

43. Like Zmich, Bonanno tried to excuse Buck's error by stating that Buck was under the false impression that COLA payments were made in July, rather than January. When pressed, however, Bonanno admitted that the timing of the COLA payment could not be a basis for missing a year.

44. Grasping at straws, Bonanno desperately offered the excuse that perhaps Buck did not understand when the COLA suspension was supposed to begin. D'Amico presented Bonanno the e-mail Zmich sent on September 27, 2012 that explicitly stated that the COLA suspension started on January 1, 2013. See Exh. 5. Upon being presented with this damning evidence, Bonanno did not even attempt to explain why Buck had listed the correct date for the

COLA suspension in the e-mail but had used a different date when actually performing its calculations.

45. This was not the end of Buck's embarrassment, however. Bonanno admitted that Buck's inexplicable oversight meant that the savings for the City's 2014 ARC – the very savings on which the City had relied during its negotiations – had been overstated by $700,000. Bonanno further admitted that since the ARC is programmed to grow by 3.5% each year, the lost savings would also grow by the same percentage. Finally, Bonanno also admitted that the $10.8 million Inactive Mortality and Data Adjustment variance in the 2012 Valuation Report was actually the net present value of the annual shortfall created by the $700,000 in lost savings in today's dollars.

46. Ultimately, Bonanno had no choice but to acknowledge that during the entirety of the City's negotiations with the retirees and unions, Buck had provided the City with the wrong numbers.

47. The remainder of the meeting played out in cinematic fashion. Faced with the gravity of Buck's admitted and inexcusable mistake, Bonanno could barely speak and choked out his words as he asked for a glass of water. Sweat poured down Bonanno's face, and he asked those present to turn down the heat in the room. He struggled to speak and stated that he felt that he might "pass out." After drinking two large glasses of water and taking several minutes to compose himself, Bonanno, in a classic instance of "too little, too late," assured D'Amico that he would review all of Buck's calculations.

48. By letter dated January 9, 2013, D'Amico demanded that Buck pay, or make acceptable arrangements to pay, $10 million to the City for its inexcusable error. See Exh. 10.

F. Passing the Buck

49. In an apparent attempt to save face, Buck sent more actuaries to meet with D'Amico in the City's offices in Providence on January 22, 2013. Clearly incapable of handling the situation alone, Bonanno brought his superiors from Buck: David Driscoll ("Driscoll"), a Principal Consulting Actuary and the National Public Sector Consulting Leader, and Anthony Abazia ("Abazia"), a Principal Consulting Actuary and the New York Retirement Practice Leader.

50. Driscoll and Abazia admitted that Buck did understate the City's savings, but now claimed that the errors were not due to overlooking a COLA during the negotiations. Rather, they claimed that their calculations during the negotiations had been correct, despite the fact that the person who performed the calculations (Bonanno) admitted they were wrong. Now they claimed the variances between the two valuation reports were due to *other* mistakes that Buck had made in its calculations, which Buck had discovered after another review in preparation for the meeting. This purported explanation was hardly reassuring, nor did it change the fact that the City's liability had been underestimated by $10 million because of Buck's error.

51. Driscoll and Abazia offered new "mistakes" in an effort to explain why the City's pension liability increased by $10 million. To help explain, Driscoll and Abazia brought a one-page schedule from Buck's draft 2012 Valuation Report detailing variances in the Pension System's unfunded liability between the draft 2012 Valuation Report and the revised numbers Buck obtained after reviewing its calculations in preparation for the meeting with D'Amico. See Exh. 11. Consistent with Buck's now demonstrable pattern of error, thirteen of the twenty-three line items on that schedule were incorrectly stated the first time.

52. Driscoll and Abazia first claimed that Buck had understated the City's unfunded liability as of June 30, 2012 by about $20 million because it had counted employee contributions twice in its calculations. Buck admitted that any careful, competent actuary would know that the employee contribution should be counted only once.

53. Next, Buck maintained that it had failed to account for COLA payments to surviving spouses. When a retired employee passes away and lists his surviving spouse as his pension beneficiary, the surviving spouse receives the pension payments, including COLAs. The operative date for determining COLAs is the retiree's date of retirement. Upon the retiree's death, however, the City's recordkeeping system changes the date on which the retiree became entitled to pension payments (i.e. the date of retirement) to the date that the surviving spouse became entitled to pension payments (i.e. the date of the retiree's death). However, the City continues to pay retirees and surviving beneficiary spouses COLAs based on the date of retirement. Upon information and belief, the data provided to Buck contains all of this information, including both of these dates.

54. Buck stated that it miscalculated the future value of payments for employees who retired before 1991 because it used the wrong date. Buck explained that it discovered this mistake when it examined the City's records to determine whether any employees received new COLAs that Buck did not anticipate. Buck allegedly performs the exercise of cross-checking COLA recipients every year, yet never discovered this fundamental error in its methods until it was forced to provide an alternate excuse to omitting the 2012 COLA from the calculations it performed for the City during its negotiations with the retirees and unions.

55. Buck claimed that the mistake affected approximately 200 "Class A" employees[2] who retired before 1991 and have since passed. D'Amico pointed out that the City has not had 200 Class A employees who retired before 1991 also die in the past year, so it must be the case that Buck has been committing this same mistake for up to twenty years and either failed to notice or failed to disclose it to the City until now.

56. After being presented with these excuses, D'Amico pointed out the fact that thirteen of the twenty-three figures that Buck had considered to calculate the City's total unfunded liability – over half – had apparently been wrong the first time. See Exh. 11. Given the prevalence of mistakes and explanations, there remained substantial doubt that even the revised numbers were indeed correct. Like a kid in math class, Buck claimed to have the right answer, but could not show its work.

57. If Buck has been misstating the City's unfunded pension liability all this time, then the City has been making smaller ARC payments than it should have been. Thus, the Pension System actually has been ***even more*** underfunded than the City has been told by Buck. Not only does this mean that the City's finances have been misrepresented for up to two decades, and that the City has been misappropriating funds that should have been used to make ARC payments for other purposes, but it also means that the City has suffered lost earnings that would have been realized on the investment of the additional funds that would have been contributed but for Buck's repeated errors.

58. Not content with its backfilling, by letter dated January 30, 2013, Buck did another about face, in a transparent attempt to create a defense to liability. Bonanno claimed that, even accounting for the COLA payment on January 1, 2012, Buck's calculations that it

[2] City employees subject to COLA suspension are broken down into two categories: Class A: general employees, including laborers, mechanics, and clerical, administrative, professional and technical workers, and Class B: members of the fire department and the police department.

provided to the City during the negotiations provided the same level of estimated savings reported in its May 25, 2012 letter. See Exh. 12. Bonanno further maintained that the City had not been injured by its calculations at all, even stating that Buck's 2012 Valuation Report was more favorable to the City than initially anticipated. Id. Bonanno's current claims are flatly contradicted by the myriad admissions of error Buck acknowledged to the City just a few weeks prior. Moreover, Bonanno's letter also does nothing to explain the material variances in the final calculations presented by Buck. Id. Remarkably, however, Bonanno had the temerity to close his letter with a familiar refrain: "I am a Member of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion." Id.

59. Even after offering numerous alternate explanations for the $10 million variance (and subsequently disavowing those explanations), Buck has never directly contradicted its first explanation by demonstrating that Buck had, in fact, included the 2012 COLA payment in its calculations during the City's negotiations with the retirees and unions.

60. It is clear that Buck made numerous substantial mistakes in its calculations that cost the City up to $10 million, if not more. Additionally, the City now feels compelled to expend scarce resources scouring decades of actuarial reports for other errors that may have been negatively affecting the City's bottom line for years. If the aforesaid legion of errors perpetuated on the City is indicative of how Buck conducts itself, the City can only wonder whether other local governments (including those in Cranston, Newport, and Smithfield) are the victims of similar errors by Buck. Buck's apparent incompetence seems particularly relevant to the City of Cranston Police and Fire pension, which is, upon information and belief, considering a ten-year COLA suspension similar to the one instituted by the City, also based on Buck's calculations and recommendations.

COUNT ONE
(Breach of Contract)

61. The City incorporates herein by reference as if fully set forth the allegations contained in paragraphs 1 through and including 60 hereof.

62. Buck provided actuarial services to the City pursuant to a contract, pursuant to which Buck was compensated for the services provided.

63. Buck had a contractual duty to perform actuarial services accurately and carefully.

64. Buck breached the contract by failing to carefully calculate, project, and analyze data and/or by failing to provide the City with accurate calculations, projections, and analyses.

65. The City has suffered damages due to Buck's breach.

COUNT TWO
(Breach of Fiduciary Duty)

66. The City incorporates herein by reference as if fully set forth the allegations contained in paragraphs 1 through and including 65 hereof.

67. By virtue of its role as the City's actuary, Buck owed the City fiduciary duties of utmost care, loyalty and candor.

68. Buck breached its fiduciary duties to City by failing to perform its services with due care despite known reliance by the City, and by violating the trust and confidence reposed by the City.

69. The City has suffered damages due to Buck's breach of its fiduciary duties.

COUNT THREE
(Negligence)

70. The City incorporates herein by reference as if fully set forth the allegations contained in paragraphs 1 through and including 69 hereof.

71. Buck owed a duty of care to the City, including the duty to use the correct data and provide accurate calculations, projections, and analyses in connection with the services it provided to the City.

72. Buck breached its duty of care to the City by failing to use reasonable care when performing its services.

73. Buck's failure to exercise due care has damaged the City.

COUNT FOUR
(Negligent Misrepresentation)

74. The City incorporates herein by reference as if fully set forth the allegations contained in paragraphs 1 through and including 73 hereof.

75. In the course of performing services as the City's actuary, Buck made representations to the City with the knowledge that the City was relying upon those representations.

76. Certain of the representations made by Buck in the course of its performance of its actuarial services were false.

77. The City justifiably and reasonably relied upon the false representations made by Buck, to its detriment.

78. As a result of Buck's false representations, the City has been damaged.

COUNT FIVE
(Violation of Rhode Island False Claims Act, G.L. § 9-1.1-1, *et seq.*)

79. The City incorporates herein by reference as if fully set forth the allegations contained in paragraphs 1 through and including 78 hereof.

80. Buck knowingly presented, or caused to be presented, to an officer or employee of the State (D'Amico and/or other employee(s) of the City), false or fraudulent claims for

payment in connection with the performance of its actuarial services.

81. Additionally, Buck knowingly made, used or caused to be made or used, false records or statements to get false or fraudulent claims paid or approved by the City.

82. Buck had actual knowledge, acted in deliberate ignorance of, and/or acted in reckless disregard of the truth or falsity of the information in its claims for payment and/or in the records or statements that were made, used, or caused to be made or used, to get false or fraudulent claims paid or approved by the City.

83. As a result of Buck's knowingly false claims of payment and/or false records or statements, the City has suffered damages.

84. In addition to the actual damages suffered by the City, Buck is liable for treble damages and the costs of this civil action.

WHEREFORE, the Plaintiff respectfully requests that this Honorable Court enter its order, judgment and decree:

(a) On Counts One, Two, Three, and Four, judgment in favor of the City and against Buck awarding damages in the amount to be proven at trial;

(b) On Count Five, judgment in favor of the City and against Buck awarding damages in the amount to be proven at trial, plus treble damages and costs pursuant to G.L. § 9-1.1-1, *et seq.*

(c) Awarding the City the costs of bringing this action, including reasonable attorneys' fees; and

(d) Granting such other and further relief as the cause of justice may require.

<u>JURY DEMAND</u>

The Plaintiff hereby demands a jury trial on all issues so triable.

RESPECTFULLY SUBMITTED,

THE CITY OF PROVIDENCE
By its Attorneys,

Jeff Padwa / wmd

Jeffrey M. Padwa (#5130)
Kenneth Chiavarini (#5903)
444 Westminster Street, Suite 220
Providence, RI 02903
(401) 680-5333
(401) 680-5520 Facsimile
Jpadwa@providenceri.com
kchiavarini@providenceri.com

William M. Dolan III (#4524)
BROWN RUDNICK LLP
10 Memorial Boulevard, 10th Floor
Providence, RI 02903
(401) 276-2600
(401) 276-2601 Facsimile
WDolan@brownrudnick.com

Dated: February 26, 2013

Exhibit 1

buckconsultants A Xerox Company

February 1, 2012

Mr. Michael D'Amico
Director of Administration
Providence City Hall
Providence, RI 02903

Re: 1% Proposed COLA Reduction

Dear Mr. D'Amico:

As requested, we have calculated the funding impact on the Employees' Retirement System of the City of Providence of a proposed change in the cost-of-living adjustments (COLAs). The change would be applied to <u>all current and future</u> retirees.

Schedule D of the pension valuation report details the current COLA structure as determined by member class and by date of retirement.

The proposed benefit change is a 1% reduction to those current COLA percentages for all future years.

Other than the change noted above, our calculations were based on the data, provisions, assumptions, and methods used in the June 30, 2011 actuarial valuation of the Retirement System.

The attached exhibits show the results of the proposal in comparison to the June 30, 2011 valuation results and also provide an updated Appropriation Forecast.

Please call if you have any questions.

Sincerely,

Philip Bonanno, ASA, EA, MAAA, FCA
Director, Consulting Actuary

PB:aa
1% COLA Reduction Letter.doc

Encl.

City of Providence

Proposed Change For All Class A Members With A COLA Of A 1% Reduction In COLA Rate

	2011 Valuation	Provision Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	467,442,487	464,767,103	-2,675,384		
Accrued Liability	398,929,648	396,254,264	-2,675,384	-157,581	Amortization Cost With Interest
Normal Cost	9,136,033	9,136,033			
Employee Normal Cost	-5,608,123	-5,608,123			
City Normal Cost	3,527,910	3,527,910	0	0	Normal Cost With Interest
				-157,581	FYE13 Cost (Savings)

Proposed Change For All Class B Fire Members Of A 1% Reduction In COLA Rate

	2011 Valuation	Provision Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	539,039,283	495,871,969	-43,167,314		
Accrued Liability	504,224,695	463,711,870	-40,512,825	-2,386,221	Amortization Cost With Interest
Normal Cost	4,638,871	4,286,544			
Employee Normal Cost	-1,502,710	-1,502,710			
City Normal Cost	3,136,161	2,783,834	-352,327	-396,815	Normal Cost With Interest
				-2,783,036	FYE13 Cost (Savings)

Proposed Change For All Class B Police Members Of A 1% Reduction In COLA Rate

	2011 Valuation	Provision Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	462,765,833	424,430,849	-38,334,984		
Accrued Liability	420,669,759	385,751,738	-34,918,021	-2,056,685	Amortization Cost With Interest
Normal Cost	5,106,036	4,691,548			
Employee Normal Cost	-1,548,755	-1,548,755			
City Normal Cost	3,557,281	3,142,793	-414,488	-466,825	Normal Cost With Interest
				-2,523,510	FYE13 Cost (Savings)

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CITY OF PROVIDENCE

Appropriation Forecast

Fiscal Year Ending	Normal Cost	Past Service Amortization	Deferral Amortization	Total	Pay-As-You-Go
6/30/2012	$ 9,489,420	$ 48,946,899	$ 492,606	$ 58,928,925	$ 85,709,864
6/30/2013	10,648,345	48,198,980	471,667	59,318,992	88,971,622
6/30/2014	11,074,279	50,608,929	471,667	62,154,875	92,225,792
6/30/2015	11,517,250	53,139,375	471,667	65,128,292	95,498,552
6/30/2016	11,977,940	55,796,344	471,667	68,245,951	98,712,553
6/30/2017	12,457,058	58,586,161	471,667	71,514,886	101,938,398
6/30/2018	12,955,340	61,515,469	471,667	74,942,476	105,223,689
6/30/2019	13,473,554	64,591,242	471,667	78,536,463	108,428,675
6/30/2020	14,012,496	67,820,804	471,667	82,304,967	111,513,641
6/30/2021	14,572,996	71,211,844	471,667	86,256,507	114,655,560
6/30/2022	15,155,916	74,772,436	471,667	90,400,019	117,841,365
6/30/2023	15,762,153	78,511,058	471,667	94,744,878	121,039,717
6/30/2024	16,392,639	82,436,611	471,667	99,300,917	124,012,154
6/30/2025	17,048,345	86,558,442	471,667	104,078,454	126,821,190
6/30/2026	17,730,279	90,886,364	471,667	109,088,310	129,388,941
6/30/2027	18,439,490	95,430,682	471,667	114,341,839	131,731,593
6/30/2028	19,177,070	100,202,216	471,667	119,850,953	133,864,299
6/30/2029	19,944,153	105,212,327	471,667	125,628,147	135,811,829
6/30/2030	20,741,919	110,472,943	471,667	131,686,529	137,451,947
6/30/2031	21,571,596	115,996,590	471,667	138,039,853	138,780,807
6/30/2032	22,434,460	121,796,420	-	144,230,880	139,750,744
6/30/2033	23,331,838	127,886,241	-	151,218,079	140,387,046
6/30/2034	24,265,112	134,280,553	-	158,545,665	140,564,026
6/30/2035	25,235,716	140,994,581	-	166,230,297	140,344,323
6/30/2036	26,245,145	148,044,310	-	174,289,455	139,695,740
6/30/2037	27,294,951	155,446,526	-	182,741,477	138,639,780
6/30/2038	28,386,749	163,218,852	-	191,605,601	137,208,102
6/30/2039	29,522,219	171,379,795	-	200,902,014	135,377,630
6/30/2040	30,703,108	-	-	30,703,108	133,211,024
6/30/2041	31,931,232	-	-	31,931,232	130,676,014
6/30/2042	33,208,481	-	-	33,208,481	127,841,257

Exhibit 2

February 2, 2012

Mr. Michael D'Amico
Director of Administration
Providence City Hall
Providence, RI 02903

Re: Proposed 10-Year Freeze on COLAs

Dear Mr. D'Amico:

As requested, we have calculated the funding impact on the Employees' Retirement System of the City of Providence of a proposed change in the cost-of-living adjustments (COLAs). The change would be applied to all current and future retirees.

Schedule D of the pension valuation report details the current COLA structure as determined by member class and by date of retirement.

The proposed benefit change is to freeze all scheduled COLAs for the next 10 years and thereafter revert back to the current COLA structure. Additionally, the City would contribute 50% of the annual savings due to this change to the Retirement System for the 10-year period that COLAs are frozen.

Freezing the COLAs for 10 years would reduce the System's unfunded accrued liability by approximately $165 million, from $901 million to $736 million. The annual required contribution would reduce by approximately $10.4 million for the fiscal year ending June 30, 2013, from $64.8 million to $54.4 million. As mentioned above, 50% of this difference would be contributed back to the Retirement System.

This reduction in the accrued liability results in an increase in the System's funded percentage (the ratio of valuation assets to accrued liabilities) from 31.94% to 36.50%. As requested, we determined that the System would attain a funded percentage of 70% in the fiscal year ending June 30, 2035.

Other than the changes noted above, our calculations were based on the data, provisions, assumptions, and methods used in the June 30, 2011 actuarial valuation of the Retirement System.

The attached exhibits show the results of the proposal in comparison to the June 30, 2011 valuation results and also provide an updated Appropriation Forecast.

I am a Member of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

Please call if you have any questions.

Sincerely,

Philip Bonanno, ASA, EA, MAAA, FCA
Director, Consulting Actuary

PB:aa
10 Year Freeze COLA Letter.doc

Encl.

City of Providence

Proposed 10 Year Freeze On COLAs For All Class A Members

	2011 Valuation	Provision Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	467,442,487	460,921,593	-6,520,894		
Accrued Liability	398,929,648	392,408,754	-6,520,894	-384,083	Amortization Cost With Interest
Normal Cost	9,136,033	9,136,033			
Employee Normal Cost	-5,608,123	-5,608,123			
City Normal Cost	3,527,910	3,527,910	0	0	Normal Cost With Interest
				-384,083	FYE13 Cost (Savings)

Proposed 10 Year Freeze On COLAs For All Class B Fire Members

	2011 Valuation	Provision Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	539,039,283	444,785,377	-94,253,906		
Accrued Liability	504,224,695	411,649,601	-92,575,094	-5,452,710	Amortization Cost With Interest
Normal Cost	4,638,871	4,353,699			
Employee Normal Cost	-1,502,710	-1,502,710			
City Normal Cost	3,136,161	2,850,989	-285,172	-321,180	Normal Cost With Interest
				-5,773,890	FYE13 Cost (Savings)

Proposed 10 Year Freeze On COLAs For All Class B Police Members

	2011 Valuation	Provision Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	462,765,833	394,753,436	-68,012,397		
Accrued Liability	420,669,759	354,397,155	-66,272,604	-3,903,483	Amortization Cost With Interest
Normal Cost	5,106,036	4,820,511			
Employee Normal Cost	-1,548,755	-1,548,755			
City Normal Cost	3,557,281	3,271,756	-285,525	-321,578	Normal Cost With Interest
				-4,225,060	FYE13 Cost (Savings)

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CITY OF PROVIDENCE

Appropriation Forecast - 10 Year COLA Freeze w/ Add'l Contribs

Fiscal Year Ending	Normal Cost	Past Service Amortization	Deferral Amortization	Additional Contribution	Total	Pay-As-You-Go
6/30/2012	$ 9,489,420	$ 48,946,899	$ 492,606	$ -	$ 58,928,925	$ 85,709,864
6/30/2013	10,869,227	43,059,193	471,667	5,191,517	59,591,604	87,248,428
6/30/2014	11,303,996	44,911,346	471,667	5,447,879	62,134,887	88,777,162
6/30/2015	11,756,156	46,833,414	471,667	5,716,930	64,778,166	90,328,388
6/30/2016	12,226,402	48,826,689	471,667	5,999,301	67,524,059	91,807,832
6/30/2017	12,715,458	50,892,242	471,667	6,295,651	70,375,018	93,318,400
6/30/2018	13,224,076	53,030,857	471,667	6,606,674	73,333,273	94,914,586
6/30/2019	13,753,039	55,242,957	471,667	6,933,098	76,400,760	96,466,024
6/30/2020	14,303,161	57,528,510	471,667	7,275,686	79,579,024	97,938,133
6/30/2021	14,875,287	59,886,911	471,667	7,635,241	82,869,106	99,512,959
6/30/2022	15,470,298	62,316,830	471,667	8,012,605	86,271,399	101,181,384
6/30/2023	16,089,110	64,816,020	471,667	-	81,376,796	105,062,230
6/30/2024	16,732,674	68,056,821	471,667	-	85,261,161	108,765,164
6/30/2025	17,401,981	71,459,662	471,667	-	89,333,309	112,353,273
6/30/2026	18,098,060	75,032,645	471,667	-	93,602,371	115,748,187
6/30/2027	18,821,982	78,784,277	471,667	-	98,077,926	118,965,245
6/30/2028	19,574,861	82,723,491	471,667	-	102,770,018	122,017,900
6/30/2029	20,357,855	86,859,665	471,667	-	107,689,187	124,929,125
6/30/2030	21,172,169	91,202,649	471,667	-	112,846,484	127,574,461
6/30/2031	22,019,056	95,762,781	471,667	-	118,253,504	129,947,468
6/30/2032	22,899,818	100,550,920	-	-	123,450,738	131,997,692
6/30/2033	23,815,811	105,578,466	-	-	129,394,277	133,746,749
6/30/2034	24,768,443	110,857,389	-	-	135,625,832	135,063,532
6/30/2035	25,759,181	116,400,259	-	-	142,159,440	136,005,202
6/30/2036	26,789,548	122,220,272	-	-	149,009,820	136,532,161
6/30/2037	27,861,130	128,331,285	-	-	156,192,415	136,657,801
6/30/2038	28,975,575	134,747,850	-	-	163,723,425	136,403,665
6/30/2039	30,134,598	141,485,242	-	-	171,619,840	135,737,572
6/30/2040	31,339,982	148,559,504	-	-	179,899,486	134,711,538
6/30/2041	32,593,581	-	-	-	32,593,581	133,282,142
6/30/2042	33,897,324	-	-	-	33,897,324	131,507,139

Exhibit 3

buckconsultants A Xerox Company

May 8, 2012

Mr. Michael D'Amico
Director of Administration
Providence City Hall
25 Dorrance Street
Providence, RI 02903

Re: 10-Year Freeze on COLAs and Freeze on Benefits Above $80,000 Thereafter

Dear Mr. D'Amico:

As requested, we have calculated the proposed benefit change specified in your May 3rd e-mail regarding the Employees' Retirement System of the City of Providence. The calculations were based on the recommended assumptions from the recent experience investigation.

Schedule D of the pension valuation report details the current COLA structure as determined by member class and by date of retirement.

The proposed benefit change is to freeze all scheduled COLAs for the next 10 years and all COLAs indefinitely for all current and future retirees with annual pensions greater than $80,000. After the initial 10 year COLA freeze, only retirees with a pension lower than $80,000 per year will receive future COLAs, limited to 3% per year, until their benefits reach $80,000, at which time no future COLAs would be granted.

The proposed benefit change would reduce the System's unfunded accrued liability (UAL) by approximately $193 million, from $888 million to $695 million and the annual required contribution (ARC) would reduce by approximately $14.5 million for the fiscal year ending June 30, 2013, from $72.1 million to $57.6 million.

Other than the changes noted above, our calculations were based on the data, provisions, and methods used in the June 30, 2011 actuarial valuation of the Retirement System.

The attached exhibits show results of the proposal in comparison to results from recommended assumptions for the June 30, 2011 experience investigation and include an updated Appropriation Forecast.

I am a Member of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

Please call if you have any questions.

Sincerely,

Philip Bonanno, ASA, EA, MAAA, FCA
Director, Consulting Actuary

PB:az
10 Year COLA Suspension with 80 Thousand Cap letter.doc

Encl.

City of Providence

10 Year Freeze On COLAs Followed By Maximum COLA Of 3% With COLA Freeze On Annual Benefits Of $80,000 Or Above For All Class A Members - Recommended Assumptions

	2011 Experience Study	COLA Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	459,852,454	453,516,962	-6,335,492		
Accrued Liability	397,196,306	390,860,814	-6,335,492	-437,708	Amortization Cost With Interest
Normal Cost	8,794,773	8,794,773			
Employee Normal Cost	-5,583,951	-5,583,951			
City Normal Cost	3,210,822	3,210,822	0	0	Normal Cost With Interest
				-437,708	FYE13 Cost (Savings)

10 Year Freeze On COLAs Followed By Maximum COLA Of 3% With COLA Freeze On Annual Benefits Of $80,000 Or Above For All Class B Fire Members - Recommended Assumptions

	2011 Experience Study	COLA Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	534,954,136	422,902,651	-112,051,485		
Accrued Liability	501,473,344	392,805,201	-108,668,143	-7,507,685	Amortization Cost With Interest
Normal Cost	4,485,303	4,028,533			
Employee Normal Cost	-1,527,706	-1,527,706			
City Normal Cost	2,957,597	2,500,827	-456,770	-514,446	Normal Cost With Interest
				-8,022,131	FYE13 Cost (Savings)

10 Year Freeze On COLAs Followed By Maximum COLA Of 3% With COLA Freeze On Annual Benefits Of $80,000 Or Above For All Class B Police Members - Recommended Assumptions

	2011 Experience Study	COLA Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	453,573,082	371,230,526	-82,342,556		
Accrued Liability	411,871,393	333,906,442	-77,964,951	-5,386,457	Amortization Cost With Interest
Normal Cost	4,997,247	4,454,736			
Employee Normal Cost	-1,767,240	-1,767,240			
City Normal Cost	3,230,007	2,687,496	-542,511	-611,013	Normal Cost With Interest
				-5,997,470	FYE13 Cost (Savings)

-14,457,309	Grand Total FYE13 Cost (Savings)
-192,968,586	Grand Total Accrued Liability Change (Savings)

CITY OF PROVIDENCE

Appropriation Forecast - 10 Year Freeze On COLAs Followed By Maximum COLA Of 3% With COLA Freeze On Annual Benefits Of $80,000 Or Above - Recommended Assumptions

Fiscal Year Ending	Normal Cost	Past Service Amortization	Deferral Amortization	Total	Pay-As-You-Go
6/30/2012	$ 9,489,420	$ 48,946,899	$ 492,606	$ 58,928,925	$ 85,807,574
6/30/2013	9,459,691	47,682,453	471,667	57,613,811	87,101,037
6/30/2014	9,838,079	49,351,339	471,667	59,661,085	88,413,971
6/30/2015	10,231,602	51,078,636	471,667	61,781,905	89,803,089
6/30/2016	10,640,866	52,866,388	471,667	63,978,921	91,143,366
6/30/2017	11,066,501	54,716,712	471,667	66,254,880	92,585,893
6/30/2018	11,509,161	56,631,797	471,667	68,612,625	94,182,823
6/30/2019	11,969,527	58,613,910	471,667	71,055,104	95,763,475
6/30/2020	12,448,308	60,665,397	471,667	73,585,372	97,323,327
6/30/2021	12,946,240	62,788,686	471,667	76,206,593	98,898,569
6/30/2022	13,464,090	64,986,290	471,667	78,922,047	100,504,966
6/30/2023	14,002,654	67,260,810	471,667	81,735,131	103,712,477
6/30/2024	14,562,760	69,614,938	471,667	84,649,365	106,707,803
6/30/2025	15,145,270	72,051,461	471,667	87,668,398	109,627,649
6/30/2026	15,751,081	74,573,262	471,667	90,796,010	112,293,035
6/30/2027	16,381,124	77,183,326	471,667	94,036,117	114,777,930
6/30/2028	17,036,369	79,884,742	471,667	97,392,778	117,085,370
6/30/2029	17,717,824	82,680,708	471,667	100,870,199	119,194,530
6/30/2030	18,426,537	85,574,533	471,667	104,472,737	121,103,359
6/30/2031	19,163,598	88,569,642	471,667	108,204,907	122,773,052
6/30/2032	19,930,142	91,669,579	-	111,599,721	124,120,973
6/30/2033	20,727,348	94,878,014	-	115,605,362	125,051,087
6/30/2034	21,556,442	98,198,744	-	119,755,186	125,471,591
6/30/2035	22,418,700	101,635,700	-	124,054,400	125,430,524
6/30/2036	23,315,448	105,192,950	-	128,508,398	124,954,541
6/30/2037	24,248,066	108,874,703	-	133,122,769	124,130,428
6/30/2038	25,217,989	112,685,318	-	137,903,307	122,866,462
6/30/2039	26,226,709	116,629,304	-	142,856,013	121,206,640
6/30/2040	27,275,777	120,711,330	-	147,987,107	119,179,154
6/30/2041	28,366,808	-	-	28,366,808	116,713,690
6/30/2042	29,501,480	-	-	29,501,480	113,880,243

Exhibit 4

buckconsultants A Xerox Company

May 25, 2012

Mr. Michael D'Amico
Director of Administration
Providence City Hall
25 Dorrance Street
Providence, RI 02903

Re: Final Mediation Scenario

Dear Mr. D'Amico:

As requested, we have calculated the proposed benefit changes specified in your May 23rd e-mail regarding the Employees' Retirement System of the City of Providence. The calculations were based on the recommended assumptions from the recent experience investigation.

Schedule D of the pension valuation report details the current COLA structure as determined by member class and by date of retirement.

The proposed benefit changes are as follows:

- freeze all scheduled COLAs for the next 10 years
- after the 10 year freeze period, COLAs are reinstated and are equal to the lesser of the current COLA percent or 3%
- for Class A - freeze all COLAs indefinitely for all current and future retirees with annual pensions greater than $80,000. After the initial 10 year COLA freeze, only retirees with a pension lower than $80,000 per year will receive future COLAs, limited to 3% per year, until their benefits reach $80,000, at which time no future COLAs would be granted.
- for Class B – same as Class A, except the annual pension cap is equal to the lesser of i) 150% of the state median income and ii) the base compensation of a current employee holding the same rank that the retiree held at the time of retirement. The annual pension cap was assumed to increase by 3.50% per year. Note the following:
    - based on information previously reported to us, 150% of the Rhode Island median income was approximately $78,000
    - retiree data supplied to us did not include the position held at retirement nor did the active data provide current position
    - for purposes of this calculation, the annual pension cap was set equal to the average base compensation for the Class B actives included in the June 30, 2011 actuarial valuation, which was $57,559
- Pensions for future retirees will be based on the average of the 4 highest years of compensation out of the last 10 years
- All employees will be required to contribute to the pension plan for each year they receive a pension accrual

The proposed benefit changes would reduce the System's unfunded accrued liability (UAL) by approximately $180 million, from $888 million to $708 million and the annual required contribution (ARC) would reduce by approximately $14.6 million for the fiscal year ending June 30, 2013, from $72.1 million to $57.5 million.

Other than the changes noted above, our calculations were based on the data, provisions, and methods used in the June 30, 2011 actuarial valuation of the Retirement System.

The attached exhibits show results of the proposal in comparison to results from recommended assumptions for the June 30, 2011 experience investigation and include an updated Appropriation Forecast.

I am a Member of the American Academy of Actuaries and meet the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

Please call if you have any questions.

Sincerely,

Philip Bonanno, ASA, EA, MAAA, FCA
Director, Consulting Actuary

PB:az
Final Mediation Scenario.doc

Encl.

City of Providence

Change To Final Average Earnings Of Highest Consecutive 4 Years Out Of 10, Continuation Of Contributions Until Accruals End, 10 Year Freeze On COLAs, Maximum COLA of 3% In Future Years With COLA Freeze On Annual Benefits Of $80,000 Or Above, For All Class A Members - Recommended Assumptions

	2011 Experience Study	COLA Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	459,852,454	451,100,747	-8,751,707		
Accrued Liability	397,196,306	389,433,084	-7,763,222	-536,347	Amortization Cost With Interest
Normal Cost	8,794,773	8,638,552			
Employee Normal Cost	-5,583,951	-6,119,758			
City Normal Cost	3,210,822	2,518,794	-692,028	-779,409	Normal Cost With Interest
				-1,315,756	FYE13 Cost (Savings)

Change To Final Average Earnings Of Highest Consecutive 4 Years Out Of 10, Continuation Of Contributions Until Accruals End, 10 Year Freeze On COLAs, Maximum COLA of 3% In Future Years With COLA Freeze On Annual Benefits Of $57,559 Or Above, Indexed At 3.5%, For All Class B Fire Members - Recommended Assumptions

	2011 Experience Study	COLA Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	534,954,136	431,350,456	-103,603,680		
Accrued Liability	501,473,344	399,781,896	-101,691,448	-7,025,678	Amortization Cost With Interest
Normal Cost	4,485,303	4,167,987			
Employee Normal Cost	-1,527,706	-1,766,386			
City Normal Cost	2,957,597	2,401,601	-555,996	-626,201	Normal Cost With Interest
				-7,651,879	FYE13 Cost (Savings)

Change To Final Average Earnings Of Highest Consecutive 4 Years Out Of 10, Continuation Of Contributions Until Accruals End, 10 Year Freeze On COLAs, Maximum COLA of 3% In Future Years With COLA Freeze On Annual Benefits Of $57,559 Or Above, Indexed At 3.5%, For All Class B Police Members - Recommended Assumptions

	2011 Experience Study	COLA Change	Difference	Annual Appropriation Cost (Savings)	
PV Future Benefits	453,573,082	380,769,002	-72,804,080		
Accrued Liability	411,871,393	341,156,393	-70,715,000	-4,885,571	Amortization Cost With Interest
Normal Cost	4,997,247	4,677,744			
Employee Normal Cost	-1,767,240	-2,111,707			
City Normal Cost	3,230,007	2,566,037	-663,970	-747,808	Normal Cost With Interest
				-5,633,380	FYE13 Cost (Savings)

-14,601,014	Grand Total FYE13 Cost (Savings)
-180,169,670	Grand Total Accrued Liability Change (Savings)

CITY OF PROVIDENCE

Appropriation Forecast - Change To Final Average Earnings Of Highest Consecutive 4 Years Out Of 10, Continuation Of Contributions Until Accruals End, 10 Year Freeze On COLAs, Maximum COLA of 3% In Future Years With Lifetime COLA Freeze On Annual Benefits ($80,000 Or Above For Class A, $57,559 Or Above For Class B), Indexed At 3.5% for Class B, For All Members
Recommended Assumptions

Fiscal Year Ending	Normal Cost	Past Service Amortization	Deferral Amortization	Total	Pay-As-You-Go
6/30/2012	$ 9,489,420	$ 48,946,899	$ 492,606	$ 58,928,925	$ 85,769,170
6/30/2013	8,431,731	48,566,707	471,667	57,470,105	87,018,584
6/30/2014	8,769,000	50,266,542	471,667	59,507,209	88,300,481
6/30/2015	9,119,760	52,025,871	471,667	61,617,298	89,672,455
6/30/2016	9,484,550	53,846,776	471,667	63,802,993	90,995,900
6/30/2017	9,863,932	55,731,413	471,667	66,067,012	92,405,997
6/30/2018	10,258,489	57,682,012	471,667	68,412,168	93,956,816
6/30/2019	10,668,829	59,700,882	471,667	70,841,378	95,486,750
6/30/2020	11,095,582	61,790,413	471,667	73,357,662	96,994,155
6/30/2021	11,539,405	63,953,077	471,667	75,964,149	98,513,410
6/30/2022	12,000,981	66,191,435	471,667	78,664,083	100,061,121
6/30/2023	12,481,020	68,508,135	471,667	81,460,822	103,245,113
6/30/2024	12,980,261	70,905,920	471,667	84,357,848	106,259,283
6/30/2025	13,499,471	73,387,627	471,667	87,358,765	109,242,166
6/30/2026	14,039,450	75,956,194	471,667	90,467,311	112,003,071
6/30/2027	14,601,028	78,614,661	471,667	93,687,356	114,638,376
6/30/2028	15,185,069	81,366,174	471,667	97,022,910	117,139,221
6/30/2029	15,792,472	84,213,990	471,667	100,478,129	119,459,262
6/30/2030	16,424,171	87,161,480	471,667	104,057,318	121,600,190
6/30/2031	17,081,138	90,212,132	471,667	107,764,937	123,530,024
6/30/2032	17,764,384	93,369,557	-	111,133,941	125,162,413
6/30/2033	18,474,959	96,637,491	-	115,112,450	126,415,182
6/30/2034	19,213,957	100,019,803	-	119,233,760	127,230,964
6/30/2035	19,982,515	103,520,496	-	123,503,011	127,645,404
6/30/2036	20,781,816	107,143,713	-	127,925,529	127,676,025
6/30/2037	21,613,089	110,893,743	-	132,506,832	127,427,710
6/30/2038	22,477,613	114,775,024	-	137,252,637	126,809,917
6/30/2039	23,376,718	118,792,150	-	142,168,868	125,874,183
6/30/2040	24,311,787	122,949,875	-	147,261,662	124,629,581
6/30/2041	25,284,258	-	-	25,284,258	123,003,600
6/30/2042	26,295,628	-	-	26,295,628	121,049,601

Exhibit 5

From: Zmich, Andrew [mailto:Andrew.Zmich@buckconsultants.com]
Sent: Thursday, September 27, 2012 2:25 PM
To: D'Amico, Michael
Cc: Bonanno, Philip; Lessard, Robert
Subject: Providence Pension Benefit Changes

Good afternoon Michael,

Attached are three iterations of the Schedule D from the 2011 valuation report. The "Schedule D – 2011 Val Report" document is identical to the Schedule D found in the 2011 valuation report. "Schedule D – 2011 Benefit Changes" includes the benefit changes outlined in our May 25th letter. "Schedule D – 2011 Compare" is simply a comparison of the two documents to highlight the differences. While this compare file is not meant for you to read, it is attached for your convenience so you can clearly see where the changes were made in the Benefit Changes document.

In earlier correspondences, the following benefit proposals were discussed, but not included in our calculation of the revised 2010 and 2011 ARC:

- Reduction of accidental disability from 66-2/3% to 50% of final compensation.
- Ten-year COLA freeze will not apply to families of employees killed in the Line of Duty.

Please confirm the benefit changes included in the "Schedule D – 2011 Benefit Changes" document and the additional two proposals listed immediately above.

Forward to others as necessary. We will proceed with the 2012 valuation once the benefit changes have been confirmed.

Best regards,
Andy

Andrew Zmich
Consultant, ASA, MAAA
Buck Consultants
245 Park Avenue – 23rd Floor New York, NY 10167-0002
(212) 330-1288
(212) 330-1158
andrew.zmich@buckconsultants.com

Exhibit 5a

SCHEDULE D

SUMMARY OF MAIN PROVISIONS OF RETIREMENT SYSTEM

AS INTERPRETED FOR VALUATION PURPOSES

1 - BENEFITS

Final compensation is the average of the highest three years of base compensation including longevity pay earned by a member during his total service as an employee.

Service is total employment by the City plus any purchased service.

Normal Service Retirement Allowance

Conditions for Allowance	The minimum age for normal service retirement is:
	For Class A members hired prior to July 1, 1995: Age 55 or the age at which 25 years of service are completed, if earlier.
	For Class A members hired between July 1, 1995 and June 30, 2004: Age 55 or the age at which 30 years of service are completed, if earlier.
	For Class A members hired between July 1, 2004 and June 30, 2009: Age 60 or the age at which 30 years of service are completed, if earlier.
	For Class A members hired on or after July 1, 2009: Age 62 with 10 years of service or the age at which 30 years of service are completed, if earlier.
	For Class B members hired prior to July 1, 2012: Age 55 or the age at which 20 years of service are completed, if earlier.
	For Class B members hired on or after July 1, 2012: Age 55 or the age at which 25 years of service are completed, if earlier. No members were valued with this eligibility in this valuation.

Amount of Allowance

Provided by Member

An annuity which is the actuarial equivalent of his accumulated contributions at the time of his retirement, and

Provided by City

For Class A members hired prior to July 1, 1996:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/40 of his final compensation for each year of total service credited not in excess of 20 years plus 1/50 of his final compensation for each year of total service credited in excess of 20 years.

For Class A members hired on or after July 1, 1996:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/50 of his final compensation for each year of total service credited.

For Police:
A pension which when added to his normal annuity, exclusive of any excess annuity, equals:

1. For members of the bargaining unit hired prior to September 1, 2001:

Eligible Years of Service	Designated Percentage
Prior to 20 years of service	2.5% per year
20 years of service	50%
21 years of service	52%
22 years of service	54%
23 years of service	56%
24 years of service	58%
25 years of service	65%
26 years of service	62%
27 years of service	64%
28 years of service	66%
29 years of service	68%
30 years of service	75%
31 years of service	72%
32 years of service	80%

2. For members of the bargaining unit hired on or after September 1, 2001 and prior to July 1, 2012:

Eligible Years of Service	Designated Percentage
Prior to 20 years of service	2.5% per year
20 years of service	50%
21 years of service	52%
22 years of service	54%
23 years of service	56%
24 years of service	58%
25 years of service	60%
26 years of service	62%
27 years of service	64%
28 years of service	66%
29 years of service	68%
30 years of service	70%
31 years of service	72%
32 years of service	75%

3. For members of the bargaining unit hired on or after July 1, 2012:

Eligible Years of Service	Designated Percentage
Prior to 25 years of service	2.0% per year
25 years of service	50.0%
26 years of service	52.5%
27 years of service	55.0%
28 years of service	57.5%
29 years of service	60.0%
30 years of service	62.5%
31 years of service	65.0%
32 years of service	67.5%
33 years of service	70.0%
34 years of service	72.5%
35 years of service	75.0%

No members were valued with this benefit in this valuation.

For all other Class B:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/40 of his final compensation for each year of total service credited not in excess of 20 years plus 1/50 of his final compensation for each year of total service credited in excess of 20 years but not in excess of 32 years and 6 months.

Early Retirement Allowance

Conditions for Allowance	The minimum age for early service retirement for Class A employees hired on or after July 1, 2004 is age 55 and at least 10 years of service. Other employees will not receive early retirement benefits.
Amount of Allowance	For Class A members hired between July 1, 2004 and June 30, 2009: The employees' normal retirement benefit reduced by 5/12% per month for each month between retirement commencement and age 60. For Class A members hired on or after July 1, 2009: The employees' normal retirement benefit reduced by 5/12% per month for each month between retirement commencement and age 62.

Deferred Retirement Allowance

Conditions for Allowance	A member who has completed at least 10 years of service may retire and receive a deferred retirement allowance commencing at the minimum age for normal service retirement.
Amount of Allowance	
Provided by Member	A deferred annuity which is the actuarial equivalent of his accumulated contributions, and
Provided by City	See "Normal Service Retirement Allowance."

Ordinary Disability Retirement Allowance

Conditions for Allowance	For Police: After 10 years but less than 20 years of service. For All Others: After 10 years of service, a member under the minimum age for service retirement may be retired for disability upon his own request or upon the request of the head of the department employing him.

Amount of Allowance

Provided by Member

An annuity which is the actuarial equivalent of his accumulated contributions at the time of his retirement, and

Provided by City

If the member is a Class A member:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 9/10 of 1/50 of his final compensation for each year of total service which would have been credited had he continued in service to the minimum age for service retirement, but such retirement allowance, exclusive of any excess annuity, is not to exceed 45% of his final compensation.

For Police:
A pension which when added to his normal annuity will give a total retirement allowance, equal to a percentage of his final compensation, as described in the following table:

Eligible Years of Service	Percentage
10 years of service	22.50%
11 years of service	24.75%
12 years of service	27.00%
13 years of service	29.25%
14 years of service	31.50%
15 years of service	33.75%
16 years of service	36.00%
17 years of service	38.25%
18 years of service	40.50%
19 years of service	42.75%

For All other Class B:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 9/10 of 1/40 of his final compensation for each year of total service which would have been credited had he continued in service to the minimum age for service retirement, but such retirement allowance, exclusive of any excess annuity, is not to exceed 45% of his final compensation.

Accidental Disability Retirement Allowance

Conditions for Allowance	A member may be retired on account of accidental disability occurring in the performance of duty regardless of age or length of service.
Amount of Allowance	
Provided by Member	Non-Police: An annuity that is the actuarial equivalent of his accumulated contributions at the time of his retirement. Police: In light of the member's receipt of the pension stated below, the only annuity payable is the actuarial equivalent of any accumulated additional contributions at the time of his retirement. and
Provided by City	For All: A pension of 66-2/3% of his final compensation, but not less than the service retirement allowance. Upon the death of a member within 5 years after accidental disability retirement as a result of an accident while in the performance of duty, a pension of one-half of the member's final compensation is paid to his widow until she dies or remarries, at which point the pension is paid to his child or children until they attain age 19.

Accidental Death Benefit

Conditions for Benefit	An accidental death benefit is payable upon the death of any member due to an accident in the performance of duty.
Amount of Benefit	A pension of one-half of the member's final compensation is paid to his widow until she dies or remarries, at which point the pension is payable to his child or children until they attain age 19. If there are no other dependents, the pension is payable to his dependent parents. In addition, a lump sum payment of the member's accumulated contributions is made.

Withdrawal or Ordinary Death Benefit

A member who withdraws prior to eligibility for retirement receives his accumulated contributions. Should a member die before retirement his accumulated contributions are paid to his estate or beneficiary; provided, however, if he has attained minimum retirement age and has not made an optional election as described below, and is survived by a spouse, such spouse is entitled, in lieu of the return of the member's accumulated contributions, to a benefit equal to that which would have been payable to such spouse upon the death of the member had the member retired on the day of his death and elected to receive a benefit under the provisions of Option 2, as described below, and nominated his spouse as his designated beneficiary, except that for a Class B member the benefit to the spouse shall not be less than 67½% of the benefit that would have been paid to such retired member without reduction.

Benefit upon Death after Retirement

For Class A:
Benefits under any option. Also, the excess, if any, of the member's accumulated contributions at retirement over all payments paid out on the member's account.

For Class B:
Upon the death of a Class B pensioner, 67½% of his/her retirement allowance is paid to his widow/widower until he/she dies or remarries, at which point the benefit is paid to any dependent children until they attain age 18. Also, the excess, if any, of the member's accumulated contributions at retirement over the total of all payments paid out on the member's account.

Minimum Benefits

The minimum monthly retirement allowance is $600, prorated for members whose credited service at retirement is less than 25.

Options at Retirement

At retirement, a member may elect to convert his allowance into a benefit of equivalent actuarial value in accordance with one of the options described below:

Option 1. A reduced retirement allowance payable during the retired member's life, with a provision that in case of death before such payments have equaled the present value of his retirement allowance at the date of retirement, the balance shall be paid to the heirs or assigns; or

Option 2. A reduced retirement allowance payable during the retired member's life, with a provision that after his death it shall be continued during the life of and paid to the person nominated by him by written designation at the time of his retirement; or

Option 3. A reduced retirement allowance payable during the retired member's life, with a provision that after his death an allowance at one-half the rate of his reduced allowance shall be continued during the life of and paid to the person nominated by him by written designation at the time of his retirement; or

Option 4. A reduced retirement allowance payable during the retired member's life, with some other benefit payable after his death, provided that the benefit shall be certified by the actuary and approved by the retirement board. This Option is not available to Police who retire on an Accidental Disability Allowance.

Class B members may not elect Options 2 or 3.

Married Class B members may also not elect Option 1.

Options upon Attainment of Minimum Retirement Age

Any member who has attained minimum retirement age may elect, in accordance with Option 2, 3 or 4 above, a reduced retirement allowance with provision for benefits to a person having an insurable interest in his life, other than his wife. The benefit is determined as of the member's date of death or retirement, if prior thereto, in accordance with the provisions of the option selected and is in lieu of the return of the member's accumulated contributions if death occurs during the member's continuance in service after attainment of minimum retirement age. Such election is irrevocable after the option becomes effective unless the designated

beneficiary predeceases the member prior to his retirement.

Cost of Living Adjustment

For Class A:

3% compounded for members who retired prior to 12/18/91; no adjustment for other Class A members.

For Police:

5% compounded for members who retired prior to January 1, 1990; 6% compounded for members who retired between January 1, 1990 and December 18, 1991; 5% compounded for members who retired between December 19, 1991 and December 31, 1992; 3% simple on first $12,000 of annual benefit for Non-Union Police; 5% compounded for special court awarded members; 3% compounded for other retired members; for all members hired on or after July 1, 2012, the COLA will be based on the Consumer Price Index for the Northeast Region but shall not be less than 1% and shall not exceed 3% simple (no members were valued with this COLA in this valuation); and Police pensions are limited to the current salary of an active participant of the same rank.

For all other Class B Retirees:

5% compounded for members who retired prior to January 1, 1990; 6% compounded for members who retired between January 1, 1990 and December 18, 1991; 5% compounded for members who retired between December 19, 1991 and June 30, 1992; 6% compounded for members who retired between July 1, 1992 and June 30, 1995; 3% simple on first $12,000 of annual benefit for members who retired between July 1, 1995 and March 16, 2006; 5% compounded for special court awarded members; 3% compounded for other retired members; for all members hired on or after July 1, 2012, the COLA will be based on the Consumer Price Index for the Northeast Region but shall not 3% simple (no members were valued with this COLA in this valuation).

The initial COLA payment is deferred until the January 1 that occurs three years after the member's retirement date.

Provisions for Elected Officials	Any person who has served as Mayor or City Councilman for at least eight full legislative years is entitled to a retirement allowance on the basis of such service as an elected official upon attainment of age 52 or the completion of 20 consecutive years as an elected official, whichever is earlier, or the occurrence of total and permanent disability prior thereto. Such retirement allowance is currently \$350 for each year of service, provided that no more than 20 years of such service are to be used in determining the allowance. Upon the death of any such elected official, benefits are payable in accordance with the Class A provisions of the act. An elected official may elect to withdraw his accumulated contributions in lieu of his rights to the allowance based on service as an elected official.

2 - CONTRIBUTIONS

Provided by Members	<u>For Class A</u>: 8% of their salaries. <u>For Police</u>: 8% of their salaries <u>For Firefighters hired on or after July 1, 2011</u>: 9% of their salaries. No members were valued with this contribution rate in this valuation. <u>For all other Class B Members</u>: 8% of their salaries. In the prior valuation the contribution rate valued was 9½% of their salaries. The Mayor and members of the City Council are required to contribute at the rate of \$350 per year. Member contributions may cease after 25 years of service.
Provided by City	The City makes the balance of contributions needed to fund the system. In addition the City shall contribute from time to time amounts sufficient with the contributions of elected officials to provide the special pensions granted to elected officials.

Exhibit 5b

SCHEDULE D

SUMMARY OF MAIN PROVISIONS OF RETIREMENT SYSTEM

AS INTERPRETED FOR VALUATION PURPOSES

1 - BENEFITS

Final compensation is the average of the four highest ~~three~~ years of base compensation out of the last ten years including longevity pay earned by a member during his total service as an employee.

Service is total employment by the City plus any purchased service.

Normal Service Retirement Allowance

Conditions for Allowance

The minimum age for normal service retirement is:

For Class A members hired prior to July 1, 1995:
Age 55 or the age at which 25 years of service are completed, if earlier.

For Class A members hired between July 1, 1995 and June 30, 2004:
Age 55 or the age at which 30 years of service are completed, if earlier.

For Class A members hired between July 1, 2004 and June 30, 2009:
Age 60 or the age at which 30 years of service are completed, if earlier.

For Class A members hired on or after July 1, 2009:
Age 62 with 10 years of service or the age at which 30 years of service are completed, if earlier.

For Class B members hired prior to July 1, ~~2012~~2004:
Age 55 or the age at which 20 years of service are completed, if earlier.

For Class B members hired between July 1, 2004 and June 30, 2012:
Age 55 or the age at which 23 years of service are completed, if earlier.

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For Class B members hired on or after July 1, 2012:
Age 55 or the age at which 25 years of service are completed, if earlier. No members were valued with this eligibility in this valuation.

Amount of Allowance

Provided by Member	An annuity which is the actuarial equivalent of his accumulated contributions at the time of his retirement, and
Provided by City	For Class A members hired prior to July 1, 1996: A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/40 of his final compensation for each year of total service credited not in excess of 20 years plus 1/50 of his final compensation for each year of total service credited in excess of 20 years.

For Class A members hired on or after July 1, 1996:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/50 of his final compensation for each year of total service credited.

For Police:
A pension which when added to his normal annuity, exclusive of any excess annuity, equals:

1. For members of the bargaining unit hired prior to September 1, 2001:

Eligible Years of Service	Designated Percentage
Prior to 20 years of service	2.5% per year
20 years of service	50%
21 years of service	52%
22 years of service	54%
23 years of service	56%
24 years of service	58%
25 years of service	65%
26 years of service	62%
27 years of service	64%
28 years of service	66%
29 years of service	68%
30 years of service	75%
31 years of service	72%
32 years of service	80%

2. For members of the bargaining unit hired on or after September 1, 2001 and prior to July 1, 2012:

Eligible Years of Service	Designated Percentage
Prior to 20 years of service	2.5% per year
20 years of service	50%
21 years of service	52%
22 years of service	54%
23 years of service	56%
24 years of service	58%
25 years of service	60%
26 years of service	62%
27 years of service	64%
28 years of service	66%
29 years of service	68%
30 years of service	70%
31 years of service	72%
32 years of service	75%

3. For members of the bargaining unit hired on or after July 1, 2012:

Eligible Years of Service	Designated Percentage
Prior to 25 years of service	2.0% per year
25 years of service	50.0%
26 years of service	52.5%
27 years of service	55.0%
28 years of service	57.5%
29 years of service	60.0%
30 years of service	62.5%
31 years of service	65.0%
32 years of service	67.5%
33 years of service	70.0%
34 years of service	72.5%
35 years of service	75.0%

No members were valued with this benefit in this valuation.

For all other Class B:

A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total

retirement allowance of 1/40 of his final compensation for each year of total service credited not in excess of 20 years plus 1/50 of his final compensation for each year of total service credited in excess of 20 years but not in excess of 32 years and 6 months.

Early Retirement Allowance

Conditions for Allowance	The minimum age for early service retirement for Class A employees hired on or after July 1, 2004 is age 55 and at least 10 years of service. Other employees will not receive early retirement benefits.
Amount of Allowance	For Class A members hired between July 1, 2004 and June 30, 2009: The employees' normal retirement benefit reduced by 5/12% per month for each month between retirement commencement and age 60. For Class A members hired on or after July 1, 2009: The employees' normal retirement benefit reduced by 5/12% per month for each month between retirement commencement and age 62.

Deferred Retirement Allowance

Conditions for Allowance	A member who has completed at least 10 years of service may retire and receive a deferred retirement allowance commencing at the minimum age for normal service retirement.
Amount of Allowance	
Provided by Member	A deferred annuity which is the actuarial equivalent of his accumulated contributions, and
Provided by City	See "Normal Service Retirement Allowance."

Ordinary Disability Retirement Allowance

Conditions for Allowance	For Police: After 10 years but less than 20 years of service. For All Others: After 10 years of service, a member under the minimum age for service retirement may be retired for disability upon his own request or upon the request of the head of the department employing him.

Amount of Allowance

Provided by Member

An annuity which is the actuarial equivalent of his accumulated contributions at the time of his retirement, and

Provided by City

If the member is a Class A member:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 9/10 of 1/50 of his final compensation for each year of total service which would have been credited had he continued in service to the minimum age for service retirement, but such retirement allowance, exclusive of any excess annuity, is not to exceed 45% of his final compensation.

For Police:
A pension which when added to his normal annuity will give a total retirement allowance, equal to a percentage of his final compensation, as described in the following table:

Eligible Years of Service	Percentage
10 years of service	22.50%
11 years of service	24.75%
12 years of service	27.00%
13 years of service	29.25%
14 years of service	31.50%
15 years of service	33.75%
16 years of service	36.00%
17 years of service	38.25%
18 years of service	40.50%
19 years of service	42.75%

For All other Class B:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 9/10 of 1/40 of his final compensation for each year of total service which would have been credited had he continued in service to the minimum age for service retirement, but such retirement allowance, exclusive of any excess annuity, is not to exceed 45% of his final compensation.

Accidental Disability Retirement Allowance

Conditions for Allowance	A member may be retired on account of accidental disability occurring in the performance of duty regardless of age or length of service.
Amount of Allowance	
Provided by Member	Non-Police: An annuity that is the actuarial equivalent of his accumulated contributions at the time of his retirement. Police: In light of the member's receipt of the pension stated below, the only annuity payable is the actuarial equivalent of any accumulated additional contributions at the time of his retirement. and
Provided by City	For All: A pension of 66-2/3% of his final compensation, but not less than the service retirement allowance. Upon the death of a member within 5 years after accidental disability retirement as a result of an accident while in the performance of duty, a pension of one-half of the member's final compensation is paid to his widow until she dies or remarries, at which point the pension is paid to his child or children until they attain age 19.

Accidental Death Benefit

Conditions for Benefit	An accidental death benefit is payable upon the death of any member due to an accident in the performance of duty.
Amount of Benefit	A pension of one-half of the member's final compensation is paid to his widow until she dies or remarries, at which point the pension is payable to his child or children until they attain age 19. If there are no other dependents, the pension is payable to his dependent parents. In addition, a lump sum payment of the member's accumulated contributions is made.

Withdrawal or Ordinary Death Benefit	A member who withdraws prior to eligibility for retirement receives his accumulated contributions. Should a member die before retirement his accumulated contributions are paid to his estate or beneficiary; provided, however, if he has attained minimum retirement age and has not made an optional election as described below, and is survived by a spouse, such spouse is entitled, in lieu of the return of the member's accumulated contributions, to a benefit equal to that which would have been payable to such spouse upon the death of the member had the member retired on the day of his death and elected to receive a benefit under the provisions of Option 2, as described below, and nominated his spouse as his designated beneficiary, except that for a Class B member the benefit to the spouse shall not be less than 67½% of the benefit that would have been paid to such retired member without reduction.
Benefit upon Death after Retirement	For Class A: Benefits under any option. Also, the excess, if any, of the member's accumulated contributions at retirement over all payments paid out on the member's account. For Class B: Upon the death of a Class B pensioner, 67½% of his/her retirement allowance is paid to his widow/widower until he/she dies or remarries, at which point the benefit is paid to any dependent children until they attain age 18. Also, the excess, if any, of the member's accumulated contributions at retirement over the total of all payments paid out on the member's account.
Minimum Benefits	The minimum monthly retirement allowance is \$600, prorated for members whose credited service at retirement is less than 25.

Options at Retirement

At retirement, a member may elect to convert his allowance into a benefit of equivalent actuarial value in accordance with one of the options described below:

Option 1. A reduced retirement allowance payable during the retired member's life, with a provision that in case of death before such payments have equaled the present value of his retirement allowance at the date of retirement, the balance shall be paid to the heirs or assigns; or

Option 2. A reduced retirement allowance payable during the retired member's life, with a provision that after his death it shall be continued during the life of and paid to the person nominated by him by written designation at the time of his retirement; or

Option 3. A reduced retirement allowance payable during the retired member's life, with a provision that after his death an allowance at one-half the rate of his reduced allowance shall be continued during the life of and paid to the person nominated by him by written designation at the time of his retirement; or

Option 4. A reduced retirement allowance payable during the retired member's life, with some other benefit payable after his death, provided that the benefit shall be certified by the actuary and approved by the retirement board. This Option is not available to Police who retire on an Accidental Disability Allowance.

Class B members may not elect Options 2 or 3.

Married Class B members may also not elect Option 1.

Options upon Attainment of Minimum Retirement Age

Any member who has attained minimum retirement age may elect, in accordance with Option 2, 3 or 4 above, a reduced retirement allowance with provision for benefits to a person having an insurable interest in his life, other than his wife. The benefit is determined as of the member's date of death or retirement, if prior thereto, in accordance with the provisions of the option selected and is in lieu of the return of the member's accumulated contributions if death occurs during the member's continuance in service after attainment of minimum retirement age. Such election is irrevocable after the

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option becomes effective unless the designated beneficiary predeceases the member prior to his retirement.

Cost of Living Adjustment

~~For Class A:~~ (COLA) A ten-year freeze period will be implemented effective January 1, 2013 and no COLAs will be granted during this period.

~~3% compounded for~~

For Class A:

Freeze COLA indefinitely for all current and future retirees with annual pensions greater than 150% of the Rhode Island state median income, which as reported by the City is approximately $80,000.

After the ten year freeze, COLAs may be granted to members who retired prior to 12/~~18/91; no adjustment for other Class A members.~~

~~For Police:~~

~~5% compounded for members who retired prior to January 1, 1990; 6% compounded for members who retired between January 1, 1990 and December 18,~~ 19/1991~~; 5% compounded for members who retired between December 19, 1991 and December 31, 1992; 3% simple on first $12,000 of annual benefit for Non-Union Police; 5% compounded for special court awarded members; 3% compounded for other retired members; for all members hired on or after July 1, 2012, the~~ . The COLA will be ~~based on the Consumer Price Index for the Northeast Region but shall not be less than 1% and shall not exceed 3% simple (no members were valued with this COLA in this valuation); and Police pensions are limited to~~ the ~~current salary~~lesser of ~~an active participant of the same rank.~~3% or the percentage

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~~For all other Class B Retirees:~~

~~5% compounded for members who retired prior to January 1, 1990; 6% compounded for members who retired between January 1, 1990 and December 18, 1991; 5% compounded for members who retired between December 19, 1991 and June 30, 1992; 6% compounded for~~

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~~members who retired between July 1, 1992 and June 30, 1995; 3% simple on first $12,000 of annual benefit for members who retired between July 1, 1995 and March 16, 2006; 5% compounded for special court awarded members; 3% compounded for other retired members; for all members hired on or after July 1, 2012,~~ the ~~COLA~~ member received prior to the freeze and will be ~~based on the Consumer Price Index for~~payable until their benefits reach the ~~Northeast Region but shall not 3% simple (no members were valued with this COLA in this valuation).~~150% threshold, at which time no further adjustments will be granted. It is assumed that the median income will increase by 3.50% per year.

Members who retired after 12/18/1991 are not eligible for any COLAs.

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For Class B:

Freeze COLA indefinitely for all current and future retirees with annual pensions greater than the lesser of i) 150% of the state median income and ii) the base compensation of a current employee holding the same rank that the retiree held at the time of retirement.

After the ten year freeze, COLAs may be granted to members and will be the lesser of 3% or the percentage the member received prior to the freeze and will be payable until their benefits reach the lesser of i) 150% of the state median income and ii) the base compensation of a current employee holding the same rank that the retiree held at the time of retirement, at which time no further adjustments will be granted. It is assumed that the median income will increase by 3.50% per year.

Note that retiree valuation data did not provide the position held at retirement nor did the active data provide current position. For valuation purposes the annual pension cap was set equal to the average base compensation for the Class B actives included in this valuation.

The initial COLA payment is deferred until the January 1 that occurs three years after the member's retirement date.

Provisions for Elected Officials

Any person who has served as Mayor or City Councilman for at least eight full legislative years is entitled to a retirement allowance on the basis of such service as an elected official upon attainment of age 52 or the completion of 20 consecutive years as an elected official, whichever is earlier, or the occurrence of total and permanent disability prior thereto.

Such retirement allowance is currently $350 for each year of service, provided that no more than 20 years of such service are to be used in determining the allowance.

Upon the death of any such elected official, benefits are payable in accordance with the Class A provisions of the act.

An elected official may elect to withdraw his accumulated contributions in lieu of his rights to the allowance based on service as an elected official.

2 - CONTRIBUTIONS

Provided by Members

For Class A: 8% of their salaries.

For Police: 8% of their salaries

For Firefighters hired on or after July 1, 2011: 9% of their salaries. ~~No members were valued with this contribution rate in this valuation.~~

For all other Class B Members: 8% of their salaries. In the prior valuation the contribution rate valued was 9½% of their salaries.

The Mayor and members of the City Council are required to contribute at the rate of $350 per year.

~~Member contributions may cease after 25 years of service.~~

Members are required to contribute for each year they receive a benefit accrual.

Provided by City

The City makes the balance of contributions needed to fund the system.

In addition the City shall contribute from time to time amounts sufficient with the contributions of elected officials to provide the special pensions granted to elected officials.

Exhibit 5c

SCHEDULE D

SUMMARY OF MAIN PROVISIONS OF RETIREMENT SYSTEM

AS INTERPRETED FOR VALUATION PURPOSES

1 - BENEFITS

Final compensation is the average of the four highest years of base compensation out of the last ten years including longevity pay earned by a member during his total service as an employee.

Service is total employment by the City plus any purchased service.

Normal Service Retirement Allowance

Conditions for Allowance

The minimum age for normal service retirement is:

For Class A members hired prior to July 1, 1995:
Age 55 or the age at which 25 years of service are completed, if earlier.

For Class A members hired between July 1, 1995 and June 30, 2004:
Age 55 or the age at which 30 years of service are completed, if earlier.

For Class A members hired between July 1, 2004 and June 30, 2009:
Age 60 or the age at which 30 years of service are completed, if earlier.

For Class A members hired on or after July 1, 2009:
Age 62 with 10 years of service or the age at which 30 years of service are completed, if earlier.

For Class B members hired prior to July 1, 2004:
Age 55 or the age at which 20 years of service are completed, if earlier.

For Class B members hired between July 1, 2004 and June 30, 2012:
Age 55 or the age at which 23 years of service are completed, if earlier.

For Class B members hired on or after July 1, 2012:
Age 55 or the age at which 25 years of service are completed, if earlier. No members were valued with this eligibility in this valuation.

Amount of Allowance

Provided by Member

An annuity which is the actuarial equivalent of his accumulated contributions at the time of his retirement, and

Provided by City

<u>For Class A members hired prior to July 1, 1996</u>:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/40 of his final compensation for each year of total service credited not in excess of 20 years plus 1/50 of his final compensation for each year of total service credited in excess of 20 years.

<u>For Class A members hired on or after July 1, 1996</u>:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/50 of his final compensation for each year of total service credited.

<u>For Police</u>:
A pension which when added to his normal annuity, exclusive of any excess annuity, equals:

1. For members of the bargaining unit hired prior to September 1, 2001:

Eligible Years of Service	Designated Percentage
Prior to 20 years of service	2.5% per year
20 years of service	50%
21 years of service	52%
22 years of service	54%
23 years of service	56%
24 years of service	58%
25 years of service	65%
26 years of service	62%
27 years of service	64%
28 years of service	66%
29 years of service	68%
30 years of service	75%
31 years of service	72%
32 years of service	80%

2. For members of the bargaining unit hired on or after September 1, 2001 and prior to July 1, 2012:

Eligible Years of Service	Designated Percentage
Prior to 20 years of service	2.5% per year
20 years of service	50%
21 years of service	52%
22 years of service	54%
23 years of service	56%
24 years of service	58%
25 years of service	60%
26 years of service	62%
27 years of service	64%
28 years of service	66%
29 years of service	68%
30 years of service	70%
31 years of service	72%
32 years of service	75%

3. For members of the bargaining unit hired on or after July 1, 2012:

Eligible Years of Service	Designated Percentage
Prior to 25 years of service	2.0% per year
25 years of service	50.0%
26 years of service	52.5%
27 years of service	55.0%
28 years of service	57.5%
29 years of service	60.0%
30 years of service	62.5%
31 years of service	65.0%
32 years of service	67.5%
33 years of service	70.0%
34 years of service	72.5%
35 years of service	75.0%

No members were valued with this benefit in this valuation.

For all other Class B:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 1/40 of his final compensation for each year of total service credited not in excess of 20 years plus 1/50 of his final compensation for each year of total service credited in excess of 20 years but not in excess of 32 years and 6 months.

Early Retirement Allowance

Conditions for Allowance	The minimum age for early service retirement for Class A employees hired on or after July 1, 2004 is age 55 and at least 10 years of service. Other employees will not receive early retirement benefits.
Amount of Allowance	For Class A members hired between July 1, 2004 and June 30, 2009: The employees' normal retirement benefit reduced by 5/12% per month for each month between retirement commencement and age 60. For Class A members hired on or after July 1, 2009: The employees' normal retirement benefit reduced by 5/12% per month for each month between retirement commencement and age 62.

Deferred Retirement Allowance

Conditions for Allowance	A member who has completed at least 10 years of service may retire and receive a deferred retirement allowance commencing at the minimum age for normal service retirement.
Amount of Allowance	
Provided by Member	A deferred annuity which is the actuarial equivalent of his accumulated contributions, and
Provided by City	See "Normal Service Retirement Allowance."

Ordinary Disability Retirement Allowance

Conditions for Allowance	For Police: After 10 years but less than 20 years of service. For All Others: After 10 years of service, a member under the minimum age for service retirement may be retired for disability upon his own request or upon the request of the head of the department employing him.

Amount of Allowance

Provided by Member	An annuity which is the actuarial equivalent of his accumulated contributions at the time of his retirement, and
Provided by City	If the member is a Class A member: A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 9/10 of 1/50 of his final compensation for each year of total service which would have been credited had he continued in service to the minimum age for service retirement, but such retirement allowance, exclusive of any excess annuity, is not to exceed 45% of his final compensation.

For Police:
A pension which when added to his normal annuity will give a total retirement allowance, equal to a percentage of his final compensation, as described in the following table:

Eligible Years of Service	Percentage
10 years of service	22.50%
11 years of service	24.75%
12 years of service	27.00%
13 years of service	29.25%
14 years of service	31.50%
15 years of service	33.75%
16 years of service	36.00%
17 years of service	38.25%
18 years of service	40.50%
19 years of service	42.75%

For All other Class B:
A pension which when added to his normal annuity, exclusive of any excess annuity, will give a total retirement allowance of 9/10 of 1/40 of his final compensation for each year of total service which would have been credited had he continued in service to the minimum age for service retirement, but such retirement allowance, exclusive of any excess annuity, is not to exceed 45% of his final compensation.

Accidental Disability Retirement Allowance

Conditions for Allowance	A member may be retired on account of accidental disability occurring in the performance of duty regardless of age or length of service.
Amount of Allowance	
Provided by Member	<u>Non-Police</u>: An annuity that is the actuarial equivalent of his accumulated contributions at the time of his retirement. <u>Police</u>: In light of the member's receipt of the pension stated below, the only annuity payable is the actuarial equivalent of any accumulated additional contributions at the time of his retirement. and
Provided by City	<u>For All</u>: A pension of 66-2/3% of his final compensation, but not less than the service retirement allowance. Upon the death of a member within 5 years after accidental disability retirement as a result of an accident while in the performance of duty, a pension of one-half of the member's final compensation is paid to his widow until she dies or remarries, at which point the pension is paid to his child or children until they attain age 19.

Accidental Death Benefit

Conditions for Benefit	An accidental death benefit is payable upon the death of any member due to an accident in the performance of duty.
Amount of Benefit	A pension of one-half of the member's final compensation is paid to his widow until she dies or remarries, at which point the pension is payable to his child or children until they attain age 19. If there are no other dependents, the pension is payable to his dependent parents. In addition, a lump sum payment of the member's accumulated contributions is made.

Withdrawal or Ordinary Death Benefit	A member who withdraws prior to eligibility for retirement receives his accumulated contributions. Should a member die before retirement his accumulated contributions are paid to his estate or beneficiary; provided, however, if he has attained minimum retirement age and has not made an optional election as described below, and is survived by a spouse, such spouse is entitled, in lieu of the return of the member's accumulated contributions, to a benefit equal to that which would have been payable to such spouse upon the death of the member had the member retired on the day of his death and elected to receive a benefit under the provisions of Option 2, as described below, and nominated his spouse as his designated beneficiary, except that for a Class B member the benefit to the spouse shall not be less than 67½% of the benefit that would have been paid to such retired member without reduction.
Benefit upon Death after Retirement	For Class A: Benefits under any option. Also, the excess, if any, of the member's accumulated contributions at retirement over all payments paid out on the member's account. For Class B: Upon the death of a Class B pensioner, 67½% of his/her retirement allowance is paid to his widow/widower until he/she dies or remarries, at which point the benefit is paid to any dependent children until they attain age 18. Also, the excess, if any, of the member's accumulated contributions at retirement over the total of all payments paid out on the member's account.
Minimum Benefits	The minimum monthly retirement allowance is $600, prorated for members whose credited service at retirement is less than 25.

Options at Retirement

At retirement, a member may elect to convert his allowance into a benefit of equivalent actuarial value in accordance with one of the options described below:

Option 1. A reduced retirement allowance payable during the retired member's life, with a provision that in case of death before such payments have equaled the present value of his retirement allowance at the date of retirement, the balance shall be paid to the heirs or assigns; or

Option 2. A reduced retirement allowance payable during the retired member's life, with a provision that after his death it shall be continued during the life of and paid to the person nominated by him by written designation at the time of his retirement; or

Option 3. A reduced retirement allowance payable during the retired member's life, with a provision that after his death an allowance at one-half the rate of his reduced allowance shall be continued during the life of and paid to the person nominated by him by written designation at the time of his retirement; or

Option 4. A reduced retirement allowance payable during the retired member's life, with some other benefit payable after his death, provided that the benefit shall be certified by the actuary and approved by the retirement board. This Option is not available to Police who retire on an Accidental Disability Allowance.

Class B members may not elect Options 2 or 3.

Married Class B members may also not elect Option 1.

Options upon Attainment of Minimum Retirement Age	Any member who has attained minimum retirement age may elect, in accordance with Option 2, 3 or 4 above, a reduced retirement allowance with provision for benefits to a person having an insurable interest in his life, other than his wife. The benefit is determined as of the member's date of death or retirement, if prior thereto, in accordance with the provisions of the option selected and is in lieu of the return of the member's accumulated contributions if death occurs during the member's continuance in service after attainment of minimum retirement age. Such election is irrevocable after the option becomes effective unless the designated beneficiary predeceases the member prior to his retirement.
Cost of Living Adjustment (COLA)	A ten-year freeze period will be implemented effective January 1, 2013 and no COLAs will be granted during this period.

For Class A:

Freeze COLA indefinitely for all current and future retirees with annual pensions greater than 150% of the Rhode Island state median income, which as reported by the City is approximately $80,000.

After the ten year freeze, COLAs may be granted to members who retired prior to 12/19/1991. The COLA will be the lesser of 3% or the percentage the member received prior to the freeze and will be payable until their benefits reach the 150% threshold, at which time no further adjustments will be granted. It is assumed that the median income will increase by 3.50% per year.

Members who retired after 12/18/1991 are not eligible for any COLAs.

For Class B:

Freeze COLA indefinitely for all current and future retirees with annual pensions greater than the lesser of i) 150% of the state median income and ii) the base compensation of a current employee holding the same rank that the retiree held at the time of retirement.

After the ten year freeze, COLAs may be granted to members and will be the lesser of 3% or the percentage the member received prior to the freeze and will be

payable until their benefits reach the lesser of i) 150% of the state median income and ii) the base compensation of a current employee holding the same rank that the retiree held at the time of retirement, at which time no further adjustments will be granted. It is assumed that the median income will increase by 3.50% per year.

Note that retiree valuation data did not provide the position held at retirement nor did the active data provide current position. For valuation purposes the annual pension cap was set equal to the average base compensation for the Class B actives included in this valuation.

The initial COLA payment is deferred until the January 1 that occurs three years after the member's retirement date.

Provisions for Elected Officials

Any person who has served as Mayor or City Councilman for at least eight full legislative years is entitled to a retirement allowance on the basis of such service as an elected official upon attainment of age 52 or the completion of 20 consecutive years as an elected official, whichever is earlier, or the occurrence of total and permanent disability prior thereto.

Such retirement allowance is currently $350 for each year of service, provided that no more than 20 years of such service are to be used in determining the allowance.

Upon the death of any such elected official, benefits are payable in accordance with the Class A provisions of the act.

An elected official may elect to withdraw his accumulated contributions in lieu of his rights to the allowance based on service as an elected official.

2 - CONTRIBUTIONS

Provided by Members

<u>For Class A</u>: 8% of their salaries.

<u>For Police</u>: 8% of their salaries

<u>For Firefighters hired on or after July 1, 2011</u>: 9% of their salaries.

<u>For all other Class B Members</u>: 8% of their salaries. In the prior valuation the contribution rate valued was 9½% of their salaries.

The Mayor and members of the City Council are required to contribute at the rate of $350 per year.

Members are required to contribute for each year they receive a benefit accrual.

Provided by City

The City makes the balance of contributions needed to fund the system.

In addition the City shall contribute from time to time amounts sufficient with the contributions of elected officials to provide the special pensions granted to elected officials.

Exhibit 6

From: Zmich, Andrew [mailto:Andrew.Zmich@buckconsultants.com]
Sent: Saturday, December 22, 2012 4:19 PM
To: D'Amico, Michael
Cc: Bonanno, Philip
Subject: RE: Draft Report

Michael,

See my responses below.

Please let me know if you have any questions.

Best regards,
Andy

Andrew Zmich
Consultant, ASA, MAAA
Buck Consultants
245 Park Avenue – 23rd Floor New York, NY 10167-0002
(212) 330-1288
(212) 330-1158
andrew.zmich@buckconsultants.com

From: D'Amico, Michael [mailto:Mdamico@providenceri.com]
Sent: Friday, December 21, 2012 1:34 PM
To: Zmich, Andrew
Cc: Bonanno, Philip
Subject: RE: Draft Report

Phil/Andy,

I have several questions.

On page 47, it looks like you have used 28 years instead of 27. This has me very worried. Does that mean my ARC in 2014 and each subsequent year is really much higher than what you showed here once you correct this?
The results currently shown are based on an amortization over a 27-year period. The remaining amortization period starts with the fiscal year in which the ARC is applicable, i.e. the 2012 valuation calculates the FYE2014 ARC, therefore the 27-year amortization starts in FYE2014 and ends FYE2040. The Appropriation Forecast in last year's report shows the final amortization payment in FYE2039, but it should have gone through to FYE2040. Last year's Appropriation Forecast should have shown an amount for FYE2040 that was 5% greater than the amount in FYE2039, but this change would not have impacted the calculation of the 2013 ARC. Subsequent analyses and cost estimates reflected amortization payments through FYE2040. Specifically, you will see in the Appropriation Forecast of the "Final Mediation Scenario" that amortizations payments are through FYE2040. We thought we had addressed this correction when discovered, but our apologies if we are mistaken.

On page 48, you used 2011 as the date on every line. I am sure that only the first line is 2011 and the rest should say 2012.
You are correct and that change will be made in the final report.

On page 48, why was there a $4.2M loss related to salary increases when nobody received an increase?
The 0% pay growth as stipulated in the employment contracts and assumed for the 2011 valuation was not reflected in the active data for some members. These increases could be from promotions, overtime, etc. Any increases greater than 0 will result in liability losses.

On page 48, why was there a $3.0M loss related to new active participants when active participants actually went down from last year and we have had many fewer new hires than in a typical year?
There were a number of people who were rehired by the City and came on with prior service resulting directly in a liability loss. There were fewer new hires this year accounting for the decrease in loss from last year to this year.

On page 48, what is the $10.8M loss related to Inactive Mortality and Data Adjustment? It can't be the Experience Study Assumption Changesas that is accounted for on a separate line.
The mortality loss is because actual release of retiree liability was less than expected, due to fewer retiree deaths than expected. We also saw data adjustments/changes where some members last year were coded as service retirees and this year were coded as disability retirees, and vice versa.

On page 48, what is the $18.9M loss classified as "other"? I am always concerned when "other" is anything more than a de minimis amount. In this case, "other" had the biggest impact on the pension plan this year. What is it?
We were hoping to speak to you about this before we sent the draft. This large "other" amount is mainly due to the timing of the COLA freeze. In the work we did in the spring we had programmed the COLA freeze to take effect one year after the valuation date, i.e. by FYE2012 since that work was based on the 2011 valuation (frozen from 2012-2021). The COLAs are actually frozen starting in 2013 and ending in 2022. As a result of the timing difference, the benefits reported and valued in the 2012 valuation reflected a COLA that was not projected in the 2011 results, thus a loss. A gain occurred since the COLA freeze is scheduled to end in 2022 rather than 2021 as was expected in the 2011 programming, but as you would expect the immediate COLA loss greatly exceed the deferred COLA gain.

Thanks

Michael

Exhibit 7

From: Zmich, Andrew [mailto:Andrew.Zmich@buckconsultants.com]
Sent: Saturday, December 22, 2012 4:19 PM
To: D'Amico, Michael
Cc: Bonanno, Philip
Subject: RE: Draft Report

Michael,

See my responses below.

Please let me know if you have any questions.

Best regards,
Andy

Andrew Zmich
Consultant, ASA, MAAA
Buck Consultants
245 Park Avenue – 23rd Floor New York, NY 10167-0002
(212) 330-1288
(212) 330-1158
andrew.zmich@buckconsultants.com

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You are correct and that change will be made in the final report.

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The 0% pay growth as stipulated in the employment contracts and assumed for the 2011 valuation was not reflected in the active data for some members. These increases could be from promotions, overtime, etc. Any increases greater than 0 will result in liability losses.

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There were a number of people who were rehired by the City and came on with prior service resulting directly in a liability loss. There were fewer new hires this year accounting for the decrease in loss from last year to this year.

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The mortality loss is because actual release of retiree liability was less than expected, due to fewer retiree deaths than expected. We also saw data adjustments/changes where some members last year were coded as service retirees and this year were coded as disability retirees, and vice versa.

On page 48, what is the $18.9M loss classified as "other"? I am always concerned when "other" is anything more than a de minimis amount. In this case, "other" had the biggest impact on the pension plan this year. What is it?
We were hoping to speak to you about this before we sent the draft. This large "other" amount is mainly due to the timing of the COLA freeze. In the work we did in the spring we had programmed the COLA freeze to take effect one year after the valuation date, i.e. by FYE2012 since that work was based on the 2011 valuation (frozen from 2012-2021). The COLAs are actually frozen starting in 2013 and ending in 2022. As a result of the timing difference, the benefits reported and valued in the 2012 valuation reflected a COLA that was not projected in the 2011 results, thus a loss. A gain occurred since the COLA freeze is scheduled to end in 2022 rather than 2021 as was expected in the 2011 programming, but as you would expect the immediate COLA loss greatly exceed the deferred COLA gain.

Thanks

Michael

Exhibit 8

On Monday December 24, 2012 at 11:52 AM, "Zmich, Andrew" <Andrew.Zmich@buckconsultants.com> wrote:

> Michael,
>
> Subsequent to sending the draft report, the results were peer reviewed and a change was required to our Schedule G. The expected unfunded as of 7/1/2012 was increased from $919,832,171 to $928,848,967 resulting in a decrease in the loss from $67,298,979 to $58,282,183 and a decrease in "Other" from a loss of $18,957,357 to $9,940,561. Of this $9.94 million "other" loss, over $6M was due to service and disability retirees that were not included in the 2011 census file. Your additional concerns are each addressed below.
>
>
> Andrew Zmich
> Consultant, ASA, MAAA
> Buck Consultants
> 245 Park Avenue - 23rd Floor New York, NY 10167-0002
> (212) 330-1288
> (212) 330-1158
> andrew.zmich@buckconsultants.com
>
>
> -----Original Message-----
> From: D'Amico, Michael [mailto:Mdamico@providenceri.com]
> Sent: Saturday, December 22, 2012 5:24 PM
> To: Zmich, Andrew
> Cc: Bonanno, Philip
> Subject: RE: Draft Report
>
> Andy,
>
>
>
> As to the amortization period, I will look at past reports on Monday to see if prior to last year was consistent with that you are saying.
>
>
>
> As to the salary increases, overtime does not count toward pensions so that can't account for the difference. There we very few promotions of any kind so I still remain baffled that a loss of this size could have been generated from pay increases. There were no salary increases and at most a handful of promotions. This number just does not look at all right based on what I know of how we have managed staff this year.
>
> A major component of the loss on salary was due to the population with less than a year of service as of 7/1/2011 (dates of hire between 7/1/2010 and 6/30/2011). Normally our standard way of annualizing new hires' pay is to divide their reported fiscal year pay by reported service, but historically this has resulted in extremely high annual earnings for young new hires, thus overstating liabilities. As a result, the established procedure for Providence has been to plug salaries less than $10,000 provided in the census data with their respective Classes average salary. The loss results this year from the actual full year's reported 2012 pay being higher than the annualized 2011 pay for some members.
>

> We did not rehire any former employees so again I am completely baffled by your explanation for this. It almost sounds like retireed employees have somehow been re-instated to active in your data when they are most likely still retired. Can you send me a list of employees who you think retired and have been subsequently rehired?
>
> Based on the data reported last year, the 42 members in the attached file were given a non-active status in the 2011 census data. The 2012 census data indicated their return to active status. They are valued this year as new members, but using their original data of hire, hence the loss.
>
> How many fewer deaths were there than you expected to account for a $10m loss?
>
> After peer review and follow up review, we have determined that the timing of the COLA freeze falls into the "Data Adjustment" bucket of the Liability Gain/(Loss) and would largely account for the $10Mloss, which when amortized over a 27-year period, would result in the ARC being approximately $700 thousand than it would have been otherwise.
>
> I am also confused by your explanation for "other". When you did the work in the spring, the COLA for FY12 had already been paid in January of 2012. How could you have expected there not to be one when it had already happened months prior? We had always discussed suspending COLA's on a prospective basis so when I asked you to value them in the spring it could only have been starting in January of 2013. If you programmed the COLA freeze to start in FY2012 and projected the savings based on that, that was clearly a major mistake on your part. I think we need to have a serious discussion about this as my entire negotiation with our unions was based upon the savings calculations you provided. In fact, on September 27th, you sent me a summary of the main provisions of the retirement system and in that email you said it included the changes outlined in your May 25th letter. The benefit summary which you wrote and attached to the Sept. 27 email states on page 9 that "A ten-year freeze period will be implemented effective January 1, 2013 and no COLAs will be granted during this period." If the Sept 27 summary was meant to include changes made in your May 25th calculations, then clearly your May 25th calculations were meant to assume a COLA suspension date of 2013 as your own benefit summary stated. How much of the increased 2014 ARC payment is related to a COLA suspension starting in 2013 vs. 2012?
>
> We thought the COLA increases were made on July 1 each year, which was consistent with Buck's COLA freeze estimates that were run in previous years (based on the 2010 valuation). Subsequent to those calculations, it was communicated to us that COLA adjustments were granted January 1 and hence our wording in the benefit summary provided. The "Final Mediation Scenario" calculated a reduction in ARC of approximately $14.6 million. As mentioned above, the timing of the COLA resulted in a $10 million loss, which when amortized over a 28-year period, would change that approximate reduction from $14.6 million to $13.9 million, or $700 thousand.
>
> Please let us know if you have any additional questions or if you'd like to set up a call to discuss. Phil and I both have scheduled time off until after the New Year, so let us know when is convenient for you.
>
>
> Michael
>

Exhibit 9

On Monday December 24, 2012 at 11:52 AM, "Zmich, Andrew" <Andrew.Zmich@buckconsultants.com> wrote:

> Michael,
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> Subsequent to sending the draft report, the results were peer reviewed and a change was required to our Schedule G. The expected unfunded as of 7/1/2012 was increased from $919,832,171 to $928,848,967 resulting in a decrease in the loss from $67,298,979 to $58,282,183 and a decrease in "Other" from a loss of $18,957,357 to $9,940,561. Of this $9.94 million "other" loss, over $6M was due to service and disability retirees that were not included in the 2011 census file. Your additional concerns are each addressed below.
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> Andrew Zmich
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> -----Original Message-----
> From: D'Amico, Michael [mailto:Mdamico@providenceri.com]
> Sent: Saturday, December 22, 2012 5:24 PM
> To: Zmich, Andrew
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> As to the amortization period, I will look at past reports on Monday to see if prior to last year was consistent with that you are saying.
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> A major component of the loss on salary was due to the population with less than a year of service as of 7/1/2011 (dates of hire between 7/1/2010 and 6/30/2011). Normally our standard way of annualizing new hires' pay is to divide their reported fiscal year pay by reported service, but historically this has resulted in extremely high annual earnings for young new hires, thus overstating liabilities. As a result, the established procedure for Providence has been to plug salaries less than $10,000 provided in the census data with their respective Classes average salary. The loss results this year from the actual full year's reported 2012 pay being higher than the annualized 2011 pay for some members.
>

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> How many fewer deaths were there than you expected to account for a $10m loss?
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> After peer review and follow up review, we have determined that the timing of the COLA freeze falls into the "Data Adjustment" bucket of the Liability Gain/(Loss) and would largely account for the $10Mloss, which when amortized over a 27-year period, would result in the ARC being approximately $700 thousand than it would have been otherwise.
>
> I am also confused by your explanation for "other". When you did the work in the spring, the COLA for FY12 had already been paid in January of 2012. How could you have expected there not to be one when it had already happened months prior? We had always discussed suspending COLA's on a prospective basis so when I asked you to value them in the spring it could only have been starting in January of 2013. If you programmed the COLA freeze to start in FY2012 and projected the savings based on that, that was clearly a major mistake on your part. I think we need to have a serious discussion about this as my entire negotiation with our unions was based upon the savings calculations you provided. In fact, on September 27th, you sent me a summary of the main provisions of the retirement system and in that email you said it included the changes outlined in your May 25th letter. The benefit summary which you wrote and attached to the Sept. 27 email states on page 9 that "A ten-year freeze period will be implemented effective January 1, 2013 and no COLAs will be granted during this period." If the Sept 27 summary was meant to include changes made in your May 25th calculations, then clearly your May 25th calculations were meant to assume a COLA suspension date of 2013 as your own benefit summary stated. How much of the increased 2014 ARC payment is related to a COLA suspension starting in 2013 vs. 2012?
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> We thought the COLA increases were made on July 1 each year, which was consistent with Buck's COLA freeze estimates that were run in previous years (based on the 2010 valuation). Subsequent to those calculations, it was communicated to us that COLA adjustments were granted January 1 and hence our wording in the benefit summary provided. The "Final Mediation Scenario" calculated a reduction in ARC of approximately $14.6 million. As mentioned above, the timing of the COLA resulted in a $10 million loss, which when amortized over a 28-year period, would change that approximate reduction from $14.6 million to $13.9 million, or $700 thousand.
>
> Please let us know if you have any additional questions or if you'd like to set up a call to discuss. Phil and I both have scheduled time off until after the New Year, so let us know when is convenient for you.
>
>
> Michael
>

Exhibit 10

January 9, 2013

Philip Bonanno, ASA, EA, MAA, FCA
Director, Consulting Actuary
Buck Consultants
245 Park Avenue
New York, NY 10167-00002

Re: City of Providence/Buck Consultants

Dear Mr. Bonanno:

I am writing to you to confirm the the discussion we had in my office on January 3, 2013, as well as to discuss possible resolution of the issue.

Beginning in January 2012, on behalf of the City of Providence (the "City"), I had asked you and Buck Consultants ("Buck") on several occasions to calculate what different changes to the pension plan would mean in terms of the plan liabilities as well as the Annual Required Contribution (ARC) until the plan reached 100% funding at the end of the amortization period. In each scenario you analyzed, the starting point was always the June 30, 2011 actuarial valuation of the retirement system (2011 Valuation). Furthermore, in your letter to me of February 1, 2012, you specifically stated that the current COLA structure was detailed in schedule D of the pension valuation report. On page 27 of the 2011 Valuation, the COLA structure is clearly laid out and specifically identifies January 1 as the date on which COLA payments are made.

One of the first scenarios you analyzed for the City was a 10 year suspension of all COLA payments. You sent me the results of this analysis by letter dated February 2, 2012. In that letter, you stated that "The proposed benefit change is to freeze all scheduled COLAs for the next 10 years." There was no reference to retroactively reversing any prior COLA already awarded including those awarded in January of 2012. The clear intent was that COLA's would be suspended from that date forward. Over the next 3 months, you sent me numerous different variations of this analysis, but in almost every case the 10 year freeze on COLA's was the most significant change. As you are acutely aware, during those months, I used Buck's estimate of savings from various scenarios to guide my negotiations with the City's unions and its retirees.

In May of 2012, negotiations with the retirees and unions had reached a critical point. On May 8, 2012, Andy Zmich sent an analysis in PDF with a 10 year

COLA freeze as well as a cap on pensions. In his email, Andy stated, "As requested, the attached PDF, delivered on behalf of Philip Bonanno who is a Member of the American Academy of Actuaries and who meets the Academy's Qualification Standards to issue this Statement of Actuarial Opinion, details the impact on the Retirement System for the proposed benefit change to freeze all scheduled COLAs for the next 10 years." Here again, it is clear that the COLA suspension was prospective in nature. The PDF specified the amount the City would save in its ARC payment from the proposed changes.

Over the succeeding two weeks, you and your associates at Buck ran numerous additional scenarios for me with the 10 year COLA freeze being a central element in almost each one. Finally, on May 23, 2012, I emailed you the details of the tentative agreement the City had reached with its unions and retirees based on all the prior analyses Buck had provided to the City. I asked you to send me a final valuation clearly stating the effect of this negotiated settlement. On May 25, 2012, you sent me the results. In that memo, you re-stated to me all the elements of the agreement we had reached. The very first of the proposed benefit changes in your letter was "freeze all scheduled COLAs for the <u>next</u> (emphasis added) 10 years." Your letter went on to state that the changes we had made would save the City $14.6 million in the first year. Here again, there was no question that the suspension of the COLA was prospective in nature.

In the ensuing weeks and months, there were several follow-up emails in which I asked you and Buck detailed questions as the City implemented the proposed agreement and as you began work on the June 30, 2012 pension valuation. As part of the work on the 2012 Valuation, Andy Zmich sent me an email on September 27, 2012 stating all the benefit changes the City had made. The purpose of Andy's email was to confirm that Buck's understanding was correct before you began the 2012 Valuation. There were three attachments to that email. The first was Schedule D (Summary of Main Provisions of Retirement System) from the 2011 Valuation. The second was a modified Schedule D incorporating the changes the City had made in its agreement with the unions and retirees. The third attachment was a comparison of the other two documents. In the COLA section of the modified Schedule D that Buck sent to the City, Buck wrote "A ten-year freeze period will be implemented ***effective January 1, 2013*** (emphasis added) and no COLAs will be granted during this period." Here yet again, it is clear that in every analyses run by Buck, it was the understanding of both parties that the COLA freeze was to go into

effect **subsequent** to the negotiations between the City and its unions, i.e. January 1, 2013, and that the savings calculations provided by Buck and upon which the City had relied in order to negotiate with its unions embodied this understanding.

There were no further discussions of these changes or the valuations until you sent me an email on December 20, 2012 explaining that the draft report of the 2012 Valuation was finished. In that email, you highlighted some of the significant variances and changes in that report. Curiously, you failed to mention in your email that you had discovered a mistake in all of the calculations you had done for me in the first six months of the year. I received the draft 2012 Valuation from Andy on December 21, 2012. After reviewing it, I sent Andy a list of questions about the variances. It was in Andy's response to my emailed questions that I was first informed of the error Buck had made. Andy said that "In the work we did in the spring we had programmed the COLA freeze to take effect one year after the valuation date, i.e. by FYE2012 since that work was based on the 2011 valuation (frozen from 2012-2021). The COLAs are actually frozen starting in 2013 and ending in 2022. As a result of the timing difference, the benefits reported and valued in the 2012 valuation reflected a COLA that was not projected in the 2011 results, thus a loss." I responded by pointing out that all the calculations you had done were meant to be prospective and clearly AFTER the January 2012 COLA payment, therefore it made no sense to assume there was no COLA payment in January 2012. Andy responded in part that "We thought that the COLA increases were made on July 1 each year." However, in the meeting on January 3, 2013, I pointed out to you that even if this were true, then there would have been a COLA payment on July 1, 2011 that you would not have accounted for in your calculations in the spring. After some discussion, you agreed that this was true and that Buck had simply erred in its calculation.

I cannot overstate the gravity of this mistake. The City would never have agreed to the pension changes with the unions and retirees had it known that the savings were less than had been projected by Buck. In Andy's email to me on December 24, 2012, he explained that the savings you had reported to me on May 25, 2012 of $14.6 million would have been $13.9 million had Buck done the calculation properly. He further explained that this resulted in an increase in the liability of the City by approximately $10 million. In our discussions on January 3, 2013, you confirmed these numbers for me. Furthermore, you also confirmed that since the ACR payment increases by 3.5% annually for the next 28 years, then the

$700k in lost savings also increases annually for the next 28 years.

In view of the gravity of this error, the City makes demand upon you and Buck to remedy the injury suffered by the City and to hold it harmless by paying, or making acceptable arrangements to pay, the sum of 10 million dollars. Given that you have already acknowledged the error and its gravity, this should simply be a matter of coming to terms on the mechanics of the payment Buck should make to the City. To that end, please immediately advise of Buck's intentions. As I stated in our meeting, I cannot keep this error under wraps for very long and will be imminently required to disclose it to the City Council, at which time it may become public. Accordingly, Buck's immediate response is requested.

Very truly yours,

Michael D'Amico
Director of Administration
City of Providence

Exhibit 11

EXHIBIT 1

SCHEDULE G

CHANGES IN UNFUNDED LIABILITY

	As shown in June 30, 2012 Draft Valatuion Report	Revised Results
June 30, 2011 Unfunded Liability	900,984,913	900,984,913
Normal Cost	11,511,985	11,511,985
Employer Contributions	58,928,925	48,454,134
Employee Contributions	8,659,588	-
Interest	74,923,786	75,280,994
Expected Unfunded as of June 30, 2012	919,832,171	939,323,758
Actual Unfunded as of June 30, 2012 (prior to changes)	987,131,150	998,754,991
Gain/(Loss)	(67,298,979)	(59,431,233)
Asset Gain/(Loss)	(25,968,812)	(25,968,812)
Liability Gain/(Loss)	(41,330,167)	(33,462,421)
Salary Increases	(4,228,510)	(4,228,510)
New Active Participants	(3,027,823)	(3,027,823)
Active - Retirements	(1,680,650)	(1,680,650)
Active - Terminations	(541,051)	(541,051)
Active - Mortality	639,986	639,986
Active - Disabilities	(2,691,933)	(2,691,933)
Inactive Mortality and Data Adjustments	(10,842,829)	(5,300,512)
Adjustment for Retirees not valued last year		(5,542,317)
Correction to COLA for some Surviving Spouses		(11,623,841)
Other	(18,957,357)	534,230
Experience Study Assumptions Changes	(12,662,581)	12,662,581
Negotiated Benefit Changes	212,855,100	199,153,779
Actual Unfunded as of June 30, 2012 (after all changes)	786,938,631	786,938,631

(11/12)

Exhibit 12

buckconsultants

January 30, 2013

Mr. Michael D'Amico
Director of Administration
City of Providence
25 Dorrance Street
Providence, RI 02905

RE: Your letter of January 9, 2013

Dear Mr. D'Amico:

I am writing to memorialize our in-person meeting last week and to respond to your January 9, 2013 letter to me.

As we discussed, Buck has validated the results described in my May 25, 2012 letter regarding the Final Mediation Scenario (FMS). This letter is to reinforce and confirm that the methodology used to prepare the estimates of savings associated with the plan changes upon which you agreed with the unions and retirees was reasonable and with the resulting estimate being a valid one. To confirm this, we re-ran our valuation programming to reflect the actual (January) timing of cost-of-living adjustments payable to eligible retirees. Valuing the FMS with this timing modification resulted in the same level of estimated savings as reported in our May 25th letter.

As part of the June 30, 2012 valuation process we once again measured the impact of the negotiated benefit changes. This was done using the updated 2012 data files as provided by the City. The savings calculated using 2012 data were more favorable to the System than previously estimated using 2011 data. Accordingly, we believe the conclusion in your January 9, 2013 letter - that the City has been negatively impacted in any way in connection with Buck's estimates for the FMS – is, ultimately, incorrect.

I am a Member of the American Academy of Actuaries and meet the Academy's qualification standards to issue the Statements of Actuarial Opinion set forth in this letter.

I am available to answer any questions you may have on the contents of this letter.

245 Park Avenue • New York, NY 10167-0002
212.330.1000 • 212.330.1158 (fax)

Sincerely,

Philip Bonanno, FSA, EA, MAAA, FCA
Director, Consulting Actuary

cc: Jeff Padwa, City Solicitor – via U.S. mail
Anthony Abbazia - Principal, Consulting Actuary, NY Retirement Practice Leader, Buck Consultants
David Driscoll - Principal, Consulting Actuary, National Public Sector Consulting Leader, Buck Consultants